Bank Zachodni WBK
Grupa Santander

ECONOMIC COMMENT

20 August 2018

Strong start of 2H18 in industry

In July, industrial output pace of growth reached 10.3% y/y vs. 6.8% y/y in June. We expected +9.9% y/y and consensus was at 10% y/y. After adjustment for seasonal and calendar effects, the headline industrial output recorded 7.8% y/y growth in July, its highest since October 2017. Construction and assembly output rose by 18.7% y/y in July versus 24.7% y/y in June. We and other market analysts were expecting the growth rate to stay above 20%, but at the same time we were underlining the negative impact of labour force scarcity on output. While a slowdown of economic growth in 2H is widely expected, July output data suggest the descent from 5.1% y/y in 2Q (according to flash estimate) will be gradual.

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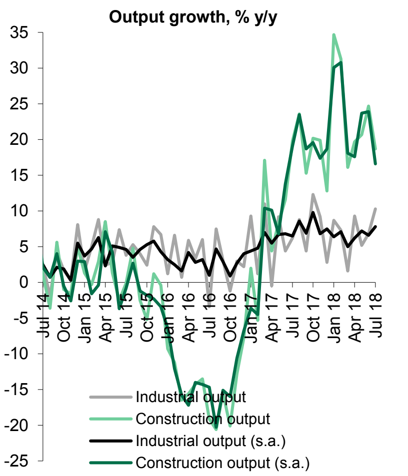

July's industrial output report better than in June

In July, industrial output pace of growth reached 10.3% y/y vs. 6.8% y/y in June. We expected +9.9% y/y and consensus was at 10% y/y. Sharp acceleration was fueled partly by the stronger than in June positive impact of the number of working days effect. The previous release generated some doubts if the sector has not started to decelerate, but the July's output report looks pretty robust. Manufacturing growth picked up to 10.2% y/y from 6.5% y/y and production of energy accelerated to 15.9%. High double-digit readings were recorded in many export-oriented branches (production of machinery and equipment, other transport equipment and metal products). After adjustment for seasonal and calendar effects, the headline industrial output recorded 7.8% y/y growth in July, its highest since October 2017 and third highest since the economic expansion has started. The July data suggest that deceleration in monthly readings we expect could come later and Polish manufacturing in general does not face any negative effects of the trade wars.

Construction slowing down

Construction and assembly output rose by 18.7% y/y in July versus 24.7% y/y in June. We and other market analysts were expecting the growth rate to stay above 20%, but at the same time we were underlining the negative impact of labour force scarcity on output. On the other hand, the sector is benefitting from strong demand from local governments ahead of local elections scheduled for this autumn. Weakness of construction was mostly visible in the housing sector. Housing market data seem to cofirm that.

In July, the 12-month sum of houses built hit 181k and was the lowest since January and 2.1k lower than in June. The number of building permits reached 250.7k, the lowest since December 2017.

In our view, it is still possible that the construction will advance by more than 20% y/y in some of the remaining months of 2018, boosted by the election effect. Despite labour force limitations a major slowdown in construction will not be seen until 2019, in our view.

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PPI growth down, but pressure in the building sector is growing

PPI inflation decreased in July to 3.4% y/y from 3.7% y/y in June. Prices in industry grew 0.1% m/m, in our view mainly due to weaker zloty.

Commodity prices went down which had negative impact on PPI. In our opinion, in the coming months PPI inflation will drop towards 2% y/y.

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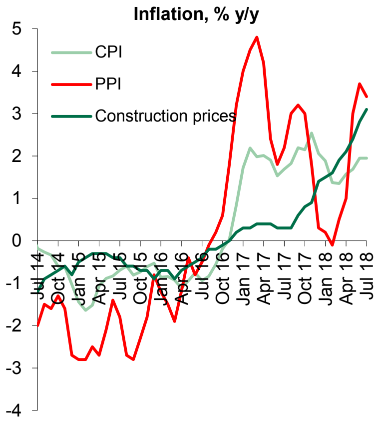

However the growth of construction prices increased in July to 3.1% from 2.8% and it was the highest result since 2008. We think that inflation in this category illustrates growing cost pressure in construction and we might see the measure coming closer to 4% y/y soon.

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