

19 September 2018

Economic Comment

Data suggesting some economic slowdown

In August, industrial output decelerated to 5.0% y/y from 10.3% y/y in July, in line with our expectations and market consensus. This major drop was primarily due to statistical factors, but we are expecting the Polish industry to be further gradually slowing down in the months to come, given deterioration in European and Polish business sentiments. Construction output rose in August by 20% y/y, in line with our expectations and versus 18.7% y/y in July. In our view, construction is poised to a slowdown as the sector is operating almost at maximal capacity. In general, August output numbers support our forecast of a gradual economic slowdown below 5% y/y in 2H18.

Industry decelerates mostly due to statistical factors

In August, industrial output decelerated to 5.0% y/y from 10.3% y/y in July, in line with our expectations and market consensus. This major drop was primarily due to statistical factors: neutral working day effect (vs positive in July; after seasonal adjustment output slowed to 5.0% from 7.8%) and high base from August 2017, when output in utilities was boosted by an one-off compensation for long-term contracts. We estimate that the latter factor subtracted about 1 percentage point from the total output growth and brought growth rate in utilities to -0.7% y/y in August from +15.9% y/y in July. Export-oriented branches of industry were still posting strong results (machinery and equipment +17.7% y/y, for example) but we are expecting the Polish industry to be further gradually slowing down in the months to come, given deterioration in European and Polish business sentiments. Interestingly, ESI indexes suggest weaker performance in sectors producing consumption and intermediate goods and robust growth in investment goods production. Usually, investment goods are a first omen for a weaker economic growth. Industrial output data confirm our scenario of a gradual economic slowdown below 5% y/y in 2H18.

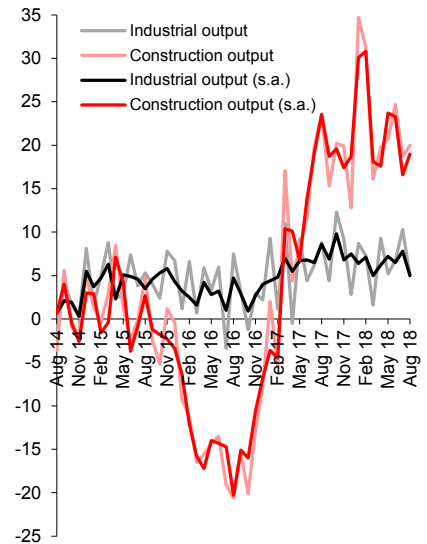
Construction boosted by public investments

Construction output rose in August by 20% y/y, in line with our expectations and versus 18.7% y/y in July. Construction was mostly driven by civil engineering (30.5% y/y), mostly connected to public investment. As we saw in fixed investment data for 2Q18, investment in Poland is almost solely driven by infrastructural projects in local governments and the newest data on construction seem to confirm this trend. In our view, construction is poised to a slowdown as the sector is operating almost at maximal capacity.

PPI inflation slightly down, construction sector prices further up

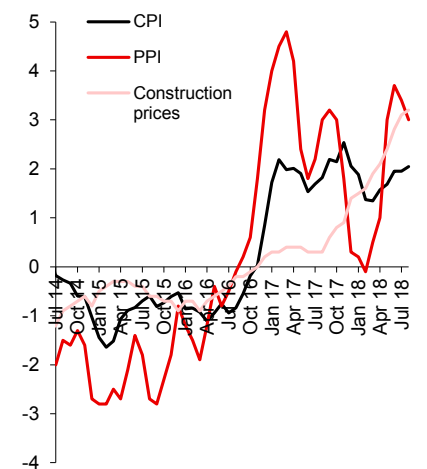
In August, PPI rose by 3.0% y/y vs consensus at 2.9% y/y. The higher-than-expected reading was mainly fuelled by mining prices, which rose by 4.2% y/y (despite the m/m prices decrease by 0.9% m/m, driven mainly by lower prices metallic ores) and manufacturing prices (+3.2% y/y). In our opinion, in the next months we will see a gradual decrease of PPI momentum. The construction and assembly production prices accelerated to 3.2% y/y, after rise by 0.3% m/m. We expect a further acceleration of prices growth in this sector.

Output growth, % y/y



Source: Stats Office, Santander Bank Polska

Inflation, % y/y



Source: Stats Office, Santander Bank Polska

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