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Economic Comment

Output recovered from weakness

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Poland October industrial output beat expectations rising 7.4% y/y vs market consensus at 6.6% and our forecast at 6%. This was a pretty nice rebound after two months of subdued releases. However, output grew only 5% y/y in seasonally adjusted terms – close to the September and August figures and well below 1H18 average of 6.4%. Construction and assembly output rose 22.4% y/y beating expectations (20.9%) but falling below our expectations. Output data for the first month of 4Q18 are in line with our forecast of a gradual deceleration of the pace of economic growth. In October PPI rose by 3.2% y/y. The industrial prices (on the monthly basis) were pushed up mainly by metal ores prices, while energy commodities and energy prices eased somewhat.

Output shoots above forecasts

Poland October industrial output beat expectations rising 7.4% y/y vs market consensus at 6.6% and our forecast at 6%. The difference in number of working days explains most of the acceleration from September's 2.8% y/y reading. This was a pretty nice rebound after two months of subdued releases. However, output grew only 5% y/y in seasonally adjusted terms – close to the September and August figures and well below 1H18 average of 6.4%.

Autos production added 1pp to the headline growth (the second biggest contribution in the last 12 month) after poor performance in the previous two months which we link to the issue of the new exhaust emission standards in the EU. Producers of electric devices recorded the fastest growth of output since December 2015 (19.5% y/y). Metals and mineral non-metallic products (for construction) also added considerably to headline output reading.

Construction and assembly output rose 22.4% y/y beating expectations (20.9%) but falling below our expectations (we hoped for even better performance thanks to the local government elections). We may soon see weaker pace of growth due to labour shortages faced by the construction sector.

Raising of buildings accelerated to 26% y/y from 18.6% while civil engineering expanded by 25.2 y/y.

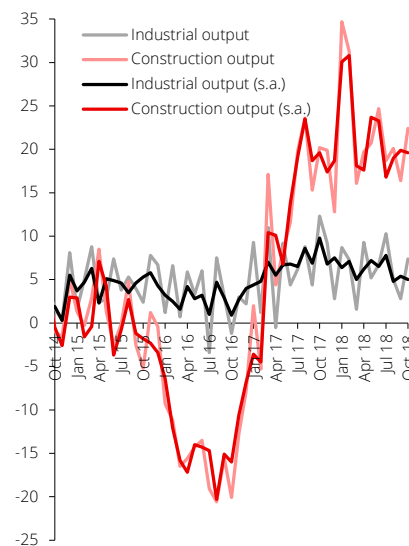
Output data for the first month of 4Q18 are in line with our forecast of a gradual deceleration of the pace of economic growth (to c4.5% y/y).

Prices in industry and construction keep rising

In October PPI rose by 0.5% m/m and by 3.2% y/y. The industrial prices (on the monthly basis) were pushed up mainly by the mining sector prices, (which rose by 1.4% m/m), but the main driver were increases of metal ores prices. The hard coal and lignite prices fell by 0.2% m/m, similar to energy prices. The manufacturing sector pushed up the total PPI index – it rose vs. previous month by 0.6% m/m. In our opinion the inflation pressure stemming from energy prices is likely to weaken now thanks to the decline of energy commodities prices. However, we still see the price pressures from the manufacturing sector, albeit it is still limited. In our opinion at the end of the year PPI might move back to 2.5% y/y.

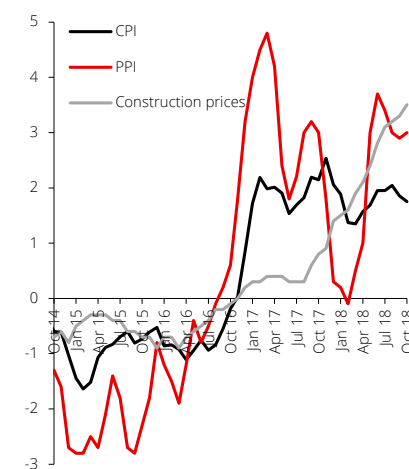
In October the prices of construction and assembly production were higher by 0.5% m/m, driven mainly by specialised construction prices, which rose by 0.6% m/m as well as prices of construction of buildings (which rose by 0.5% m/m). The prices of civil engineering also grew, but more slowly, by 0.3% m/m.

Output growth, % y/y



Source: Stats Office, Santander Bank Polska

Inflation measures, % y/y



Source: Stats Office, Santander Bank Polska

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