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Economic Comment

Fading resilience of Polish industry

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Poland's industrial output expanded by 5.8% y/y in July, below market and our expectations. Seasonally-adjusted numbers showed a rise by 3.7% y/y, which is one of the worst results this year, second only to 2.7% y/y in June, which was under negative spell of many one-offs. Output of intermediate goods was underperforming and this type of goods is strongly correlated with Polish exports to Germany. Thus, it seems that the weak economic climate in Germany has finally begun to take its toll on Polish industry. July construction output is in line with our claim that the sector will be decelerating this year due to EU funds cycle. The data are generally in line with our forecast of further GDP growth slowdown in 3Q19 (4.2% y/y vs 4.4% y/y in 2Q19).

Unimpressive rebound of industrial output

Poland's industrial output expanded by 5.8% y/y in July, below market (6.5%) and our expectations (8.0%). Seasonally-adjusted numbers showed a rise by 3.7% y/y, which is one of the worst results this year, second only to 2.7% y/y in June, and compared to 6.5% average for the January-May period. June output was under negative spell of many calendar and weather-related one-offs and a swift rebound seemed a done deal, but proved to be unimpressive.

Detailed breakdown reveals that output of intermediate goods was underperforming and this type of goods is strongly correlated with Polish exports to Germany. Thus, it seems that the weak economic climate in Germany has finally begun to take its toll on Polish industry and this factor is likely to be undermining Polish industry in the months to come to some extent, unless Polish exporters diversify further their trade ties (so far the collapse of export growth to Germany was so far offset by stronger relations with other countries, mainly the UK, Italy or Hungary).

The limited rebound after poor June result was seen in several manufacturing categories: production of basic metals, electronics, machinery and equipment, chemicals, while other categories provided growth contributions comparable to the April-May period (oil refining, car manufacturing and the correlated rubber & plastic products sector, manufacture of beverages). Such uneven performance suggests that this time we are not dealing with some general factor, like calendar effects, but with more specific, industry-level issues.

Construction output above forecast but still in slowdown phase

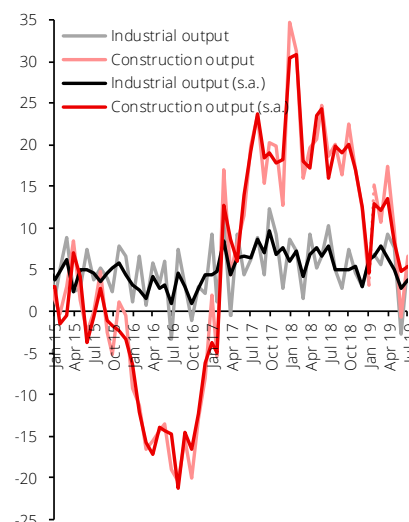
July construction output surprised slightly to the upside (6.6% y/y), but in seasonally-adjusted terms it showed a fifth decline m/m in a row, which is generally in line with our claim that construction will be decelerating this year after a peak in EU funds utilisation had been reached. Construction of buildings and specialised construction shrank in annual terms (-2.9% y/y and -2.8% y/y, respectively), while civil engineering posted a strong rise by 19.4% y/y. Interestingly, despite weak performance of construction of buildings, housing market suggested some possible acceleration after stabilisation at high level: while the number of finished houses was lower in annual terms, house starts and building permits increased, suggesting a higher supply of houses in the upcoming quarters.

The industrial and construction output data are broadly in line with our forecast of further GDP growth slowdown in 3Q19 (4.2% y/y versus 4.4% y/y in 2Q19).

PPI slightly above expectations

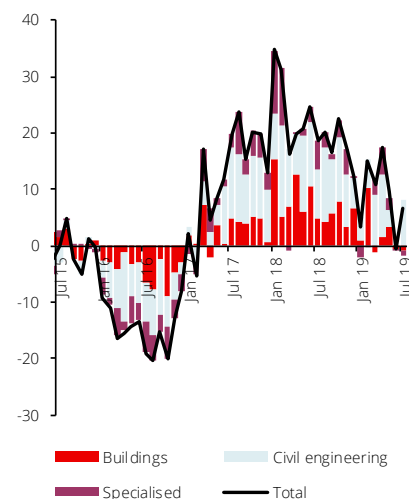
PPI inflation data for July showed a rise from 0.5% y/y (revised down from 0.6%) to 0.6% y/y. Market consensus for July was 0.5% y/y. Commodity prices rose more than we expected, 1.1% m/m, and manufacturing prices refused to decline m/m (which however still means that the y/y measure for this category has dropped to 0%, the lowest since early 2018). Construction price growth eased in July from 3.7% y/y to 3.5%

Output growth in Poland



Source: GUS, Santander

Construction output, y/y growth structure



Source: GUS, Santander

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