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Economic Comment

Data suggesting further GDP slowdown

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Industrial output expanded by 3.8% y/y in December 2019, slower than expected. Seasonally-adjusted data showed a decline by 2.9% m/m (the worst since 2009) and a rise by 2.1% y/y. The December set of data (construction, industry) clearly confirms that the Polish economy was slowing down at the end of 2019 and we see growing risk that GDP growth did not exceed 3.5% y/y in 4Q19. Business sentiment indicators for January showed some improvement in industry but taken together do not question our view that 1Q20 will see a further slowdown.

Industry below expectations in December

Industrial output expanded by 3.8% y/y in December 2019, slower than we expected (4.8% y/y) and below the market consensus (6.4% y/y). Seasonally-adjusted data showed a decline by 2.9% m/m (the worst since 2009) and a rise by 2.1% y/y. Most market analysts were assuming a strong rebound versus 1.4% y/y in November on the back of positive working day effect, but we estimated that this effect will not be so strong given the distribution of holidays in December, encouraging to take more days off. Still, Polish industry is suffering due to the euro zone slowdown, resulting in declining orders, especially in industrial supplies (+3.1% y/y output in December), while investment goods were doing quite well (6.1% y/y). We are expecting the Polish industry to stay rather sluggish in the nearest months, at least as long as the German industry remains in the doldrums. However, a gradual recovery is possible later in 2020. The December set of data (construction, industry) clearly confirms that the Polish economy was slowing down at the end of 2019 and we see growing risk that GDP growth will not exceed 3.5% y/y in 4Q19.

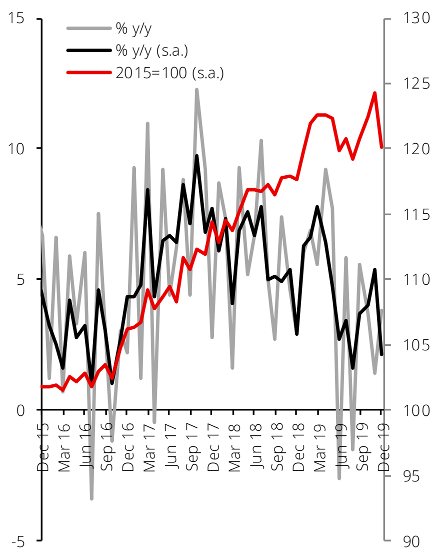
Business sentiment – new hope in new year

The first indicators of Polish business sentiment for January released by GUS showed a rebound in manufacturing to the highest level in a year in seasonally adjusted terms, thanks to 'current assessment' rather than 'outlook' components. Construction sentiment kept decreasing at a very mild pace. There was some improvement in wholesale trade, but retail trade was significantly more pessimistic than in December (due to worse prognostic components of the sentiment index). It is interesting to see industrial sentiment improve at a time when real data suggest a tough period for the sector. We believe the economy will slow down further in 1Q20 at a gradual pace and the January business sentiment indicators do not affect this view.

PPI up thanks to base effect

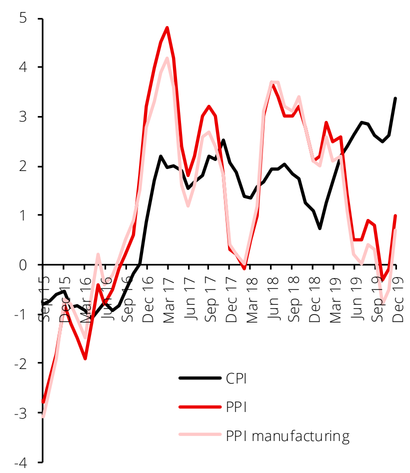
In December, PPI growth rebounded to +1.0% y/y from -0.1%, as we expected. The rise was mostly caused by low base effect, supported by metal ore prices going up 2.8% m/m (5.9% y/y). Manufacturing producer prices rose by 0.7% y/y which is the highest pace since May 2019. In m/m terms, the 0.1% rise of manufacturing prices was the second highest result for December in the last five years. The largest producer inflation was seen in oil refining, food and tobacco industry (ahead of the rise of excise duty). We estimate that PPI growth may stay around zero in the following months, with the 1H20 average of 0.1% y/y. Construction price growth eased further in December, to 2.9% y/y from 3.0%.

Industrial output, %y/y



Source: GUS, Santander

Inflation measures, %y/y



Source: GUS, Santander

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