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# Economic Comment

## Production kept growing in July

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July's industrial output rose by 1.1% y/y, less than our optimistic forecast (+3.7%), but above market expectations of a decline (-1.2%). Industry came above the water also in seasonally-adjusted terms, showing +0.2% y/y and +6.2% m/m. While we are expecting a further recovery in industry in the months to come, it will become more demanding: economic situation in Poland's main economic partners is likely to improve but remain subdued, and this could weigh on sectors producing intermediate goods, while enhanced demand for durable consumer goods is probable to be satiated soon. PPI growth remained negative, but a bit less so.

### Industry driven by durable consumer goods

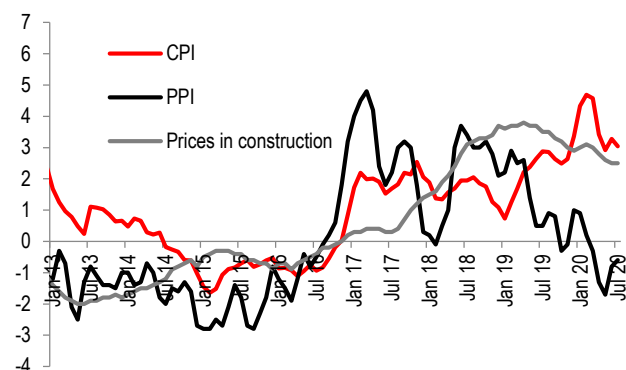
Industry's rebound has been fast and feisty, and output is only 3.5% below pre-epidemic peak in February. Already 20 out of 34 industry sectors recorded a positive growth of output, with furniture clearly outperforming having posted +24.2% y/y growth rate, followed by electronics (+15.3% y/y). We think that this is a clear effect of the epidemic, which boosted demand for electronic devices and furniture helpful in remote work and schooling. In broader terms, sectors producing durable consumer goods were doing well with 22.9% y/y growth rate, while other sectors were close to zero or even falling: non-durable consumer goods added 1.6% y/y and intermediate goods +0.9% y/y and both were actually worse off than one month earlier. Investment goods output decreased by 3.3% y/y and energy goods by 7.0% y/y. Interestingly, car output was also positive in annual terms, with +0.6% y/y, having dipped by almost 80% in April. For the first time since the outbreak of the pandemic industries with revenues created mostly from foreign trade showed higher growth of output (+5.6% y/y) than the domestic market-oriented ones (-1.3% y/y).

While we are expecting a further recovery in industry in the months to come, it will become more demanding: economic situation in Poland's main economic partners is likely to improve but remain subdued, and this could weigh on sectors producing intermediate goods, while enhanced demand for durable consumer goods is probable to be satiated soon. Moreover, the positive impact of fiscal stimulus could be fading, leading to increased bankruptcies and layoffs and undermining the aggregate demand.

### PPI inflation still negative

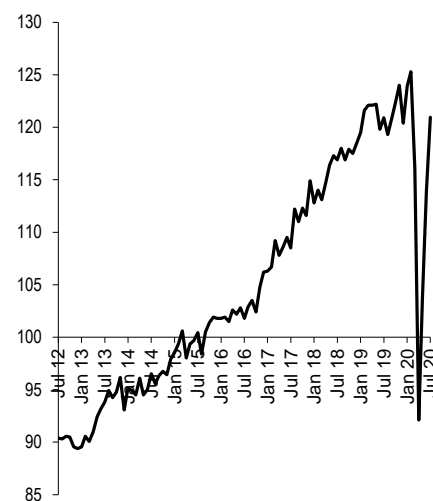
In July Polish producer prices declined by 0.6% y/y, a notch more than was expected. Manufacturing prices were down 1.4% y/y, while growth rates of other PPI components were still highly positive (mining 5% y/y, utilities 2.1%, water and waste management 5.8%). The largest m/m rise of producer prices was seen in metal ore mining, 8.4% and oil refining, 5.1% and were linked to rising global commodities prices. Construction price growth remained at 2.5% y/y, the downside adjustment remains very gradual (from 3.0% in March).

### Inflation in Poland, %/y



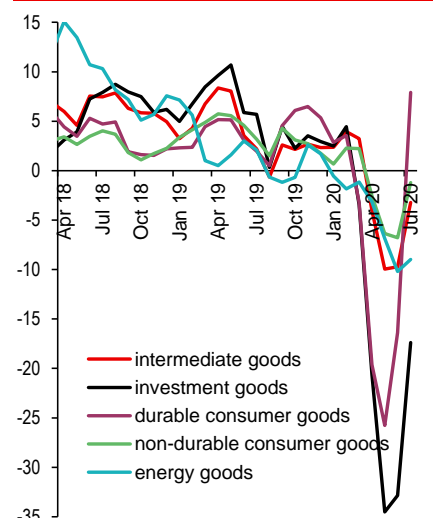
Source: GUS, Santander

### Industrial output, sa, 2015=100



Source: GUS, Santander

### Output in broad sectors, 3m sma, %/y



Source: GUS, Santander

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