18 September 2020

Economic Comment

Moderation of output growth

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Industrial output grew by 1.5% y/y in August, less than we (2.9%) and the market (3.4%) had expected. The rebound of industrial activity is still led by durable consumer goods albeit with some moderation of the pace of the recovery. Producer prices fell 1.2% y/y, in line with our forecast.

Industrial recovery switched to more gradual phase

Industrial output grew by 1.5% y/y in August, less than we (2.9%) and the market (3.4%) had expected. In seasonally adjusted terms the result was +1.8% y/y, up from +0.2% y/y previously, but the positive momentum has decreased: the SA m/m rise was 0.6%, compared to 6.2% in July and 9.9% in June. Output growth in manufacturing went up to 2.0% y/y from 1.1%, but at the same time the drag on overall growth from mining increased (coal mining down 20.4% y/y).

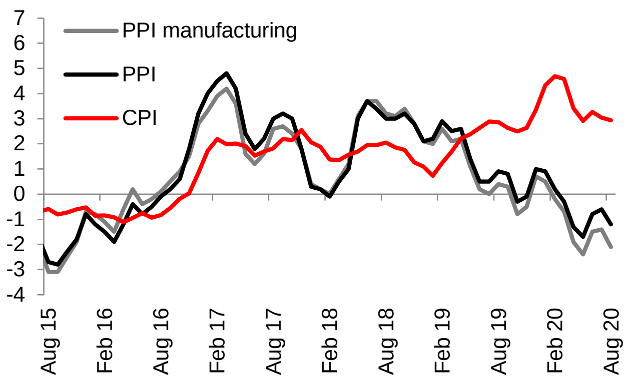
The recovery of industrial activity is led by durable consumer goods (12.7% y/y) while intermediate goods were higher by 2.2% y/y and non-durables were up 0.9% y/y. Production of investment goods still has not shown positive y/y growth (-1.6%). Electronic and IT equipment industry is enjoying the highest y/y growth rate (20.1% y/y) and some other export-oriented branches are also doing well albeit with some moderation of the recovery pace (furniture 8.5% y/y, electrical appliances up 10.3% y/y).

We expect the industrial recovery to proceed at a reduced pace now with output growth increasing above 2% before the end of the year, but not much higher. Economic condition of trade partners remains subdued and consumer durables may have benefitted from accumulated demand that could soon decrease. We are entering a period when some government support measures lowering labour costs and improving liquidity will be gradually phased out, which could lead to more layoffs.

Broad-based price cuts seen in PPI

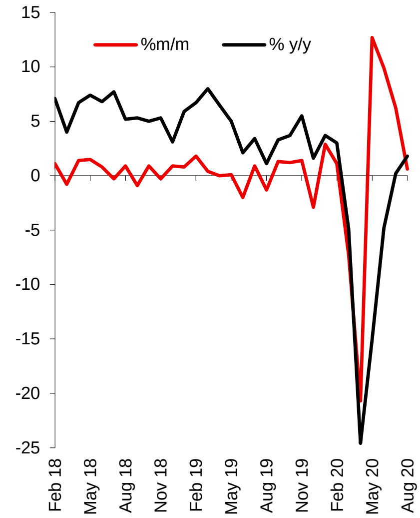
Producer prices fell 1.2% y/y, in line with our forecast. The down move was driven mainly by manufacturing, where prices fell by 2.1% y/y (the second lowest reading in almost five years), amid quite broad-based reductions across branches (prices did not fall versus previous month only in production of computers, electronics, clothing and printing). It confirms earlier signals from business surveys that firms are competing by cutting prices amid subdued demand.

Inflation in Poland, %y/y



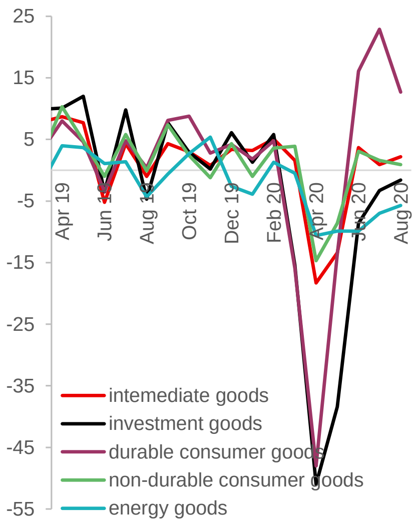
Source: GUS, Santander

Industrial output, seasonally adjusted



Source: GUS, Santander

Output in main industrial groups, % y/y



Source: GUS, Santander

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