

20 October 2020

Economic Comment

Industry back on track, but for how long?

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Industrial output climbed by 5.9% y/y in September versus 1.5% y/y in August, beating the market consensus (we: 3.1%, market: 3.7%). Data corrected for seasonality showed a rise by 3.0% m/m and 3.6% y/y. Rebound in industry proved stronger than expected, but it is likely to slow down in October due to rising Covid-19 numbers and wider range of restrictions. Still, we are expecting the sector to suffer a markedly weaker blow than during the Great Lockdown in April. In September Polish PPI fell by 1.6% y/y, slightly more than expected, with manufacturing prices down by -2.5% y/y, the most in five years.

Industry driven by foreign demand

Acceleration in industry was driven by manufacturing (7.2% y/y vs 2.0% y/y in August), while other sectors were rather sluggish or even slowing down. Rebound was recorded in all broad economic sectors, especially in durable consumer goods (+21.2% y/y vs 12.7% y/y in August), supply goods (+7.3% y/y vs 2.2% y/y in August) and investment goods (+2.6% y/y vs -2.6% y/y in August). Data show a quite good performance of export-oriented sectors, with electrical appliances expanding by 26.6% y/y, computers by 22.8% y/y and furniture by 15.8% y/y. We estimate that manufacturing output for foreign markets jumped by 8.2% y/y in September versus a decline by 1.1% y/y in August. Output for domestic markets went up by 6.4% y/y versus 4.5% y/y in August, according to our estimates. This confirms our call that even if domestic demand will suffer due to tightening of local restrictions and rapidly growing Covid-19 cases, the export growth may provide some cushion for GDP growth in 4Q, especially given that Germany – our main exporting partner – seems to be coping well with the second wave of the disease.

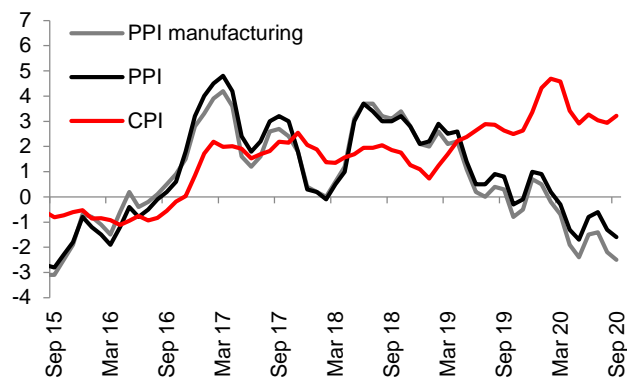
Producer prices keep falling

In September Polish PPI fell by 1.6% y/y, slightly more than expected (market: -1.5% Santander -1.4%), while the previous print was revised from -1.2% to -1.3%. Total PPI growth remains negative since March. Manufacturing PPI fell to -2.5% y/y, the lowest in five years - some offset to this decline was provided by growing prices in metal mining and waste management.

The largest y/y declines of prices are still seen in oil refining, -26% y/y, down from -20.5% (global oil price swings usually have high impact on overall Polish PPI). The deeper decline in electronics (-2.7% y/y vs -2% previously) and moderation of growth in car manufacturing (to 2.6% y/y from 3.2%) was also responsible for the further decline of total PPI growth.

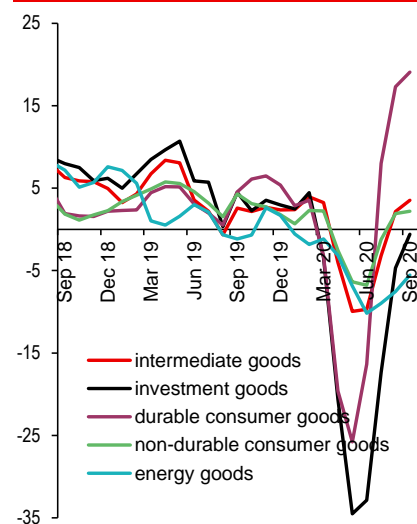
With pandemic stats on the rise it is hard to expect a positive turn in the producer prices data, we even have doubts if a recovery could be possible in 2021.

Price growth in Poland, % y/y



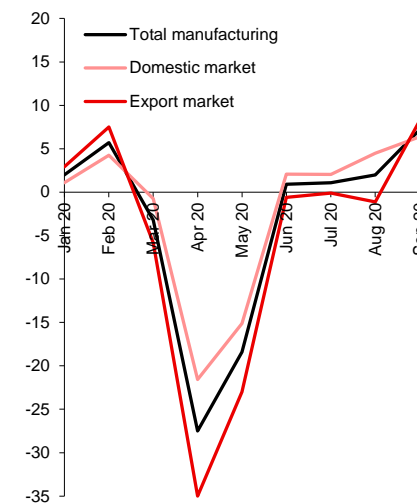
Source: GUS, Santander

Industrial output by broad sectors, 3-month moving average, % y/y



Source: GUS, Santander

Output in manufacturing, % y/y



Source: GUS, Santander

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