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# Economic Comment

## Industry robustness as moods deteriorate

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Industrial output slowed down in October to 1.0% y/y from 5.9% y/y in September, in line with our and market expectations. In our view this slowdown was mostly due to calendar effects (-1 working day in annual terms vs +1 in September) and the effects of renewed restrictions were minor. We are expecting industry to remain relatively robust to the second wave of Covid infections, as the global reaction is less harmful to economic activity. Still, sectoral business sentiment indexes dropped severely in many cases in November, both their current conditions and expectations components. PPI surprised to the upside.

### Industry slower on calendar effects

Seasonally-adjusted numbers showed +1.6% m/m and 3.8% y/y and this seems to confirm our interpretation that calendar-related factors were the main drag on industry. The slowdown was broad-based in industrial sectors, with output of other transport vehicles being a notable exception (+0.6% y/y vs -25.6% y/y in September), but this swing was mostly due to a statistical base effect. The most considerable negative contributions to growth (as compared to September) were delivered by output of food products (-0.8pp) as well as by repair and installation of machinery and equipment (-0.8pp). The latter is a rather small sector (slightly below 2% of total construction), but recorded a very high one-off growth rate in September (+47.3% y/y), which slid markedly in October (to +0.2% y/y). Slowdown was visible both in export- and domestic-oriented sectors and all these pieces of information are generally in line with calendar-related slowdown.

We are expecting industry to remain relatively robust to the second wave of Covid infections, as the global reaction is less harmful to economic activity. Yet, some negative impact: firstly: economic rebound will be slowed down, secondly: many furniture and clothing shops are shut down and this is going to affect output in these sectors.

### Business worries are growing

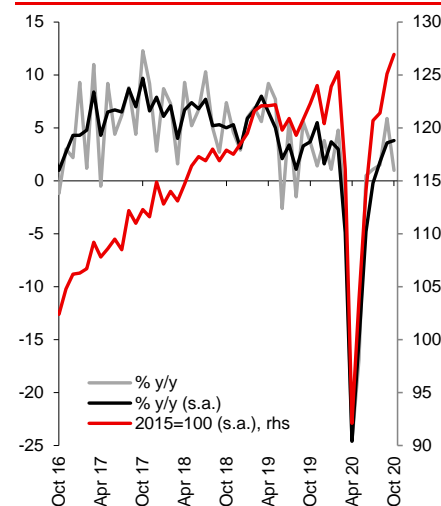
November business sentiment survey by GUS captured a further broad-based worsening of outlook. All sectors expressed more pessimism when it comes to expected business environment. Most of them also indicated that current situation is also already getting worse (transport and ICT were exceptions) while in the previous edition most of these indexes were still shown rising. The deterioration of sentiment was particularly strong in hotels and restaurants (horeca) sector and in retail trade. The survey was conducted in the first 10 days of November, so is most likely not affected by vaccine news.

The special Covid-19 related questions revealed that transport and hotels & restaurants sectors are feeling the most threatened since the pandemic has started (20% and 55% of businesses think their existence is threatened, respectively). Absences of employees due to unplanned leaves and quarantine have gone up significantly, in some sectors to highest levels so far. This all confirms the 4Q economic downturn.

### PPI recovery

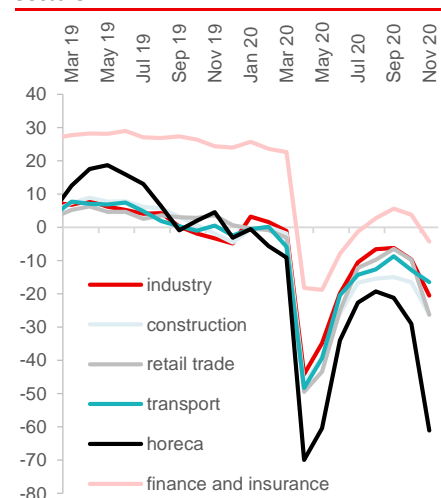
In October, PPI inflation was -0.4% y/y, 0.4pp above our estimate. At the same time the previous reading was revised higher by 0.2pp to -1.4% y/y. The rebound was mostly seen in manufacturing, aided by higher oil refining prices (+2.6% m/m).

### Industrial output



Source: GUS, Santander

### General business sentiment indexes by sectors

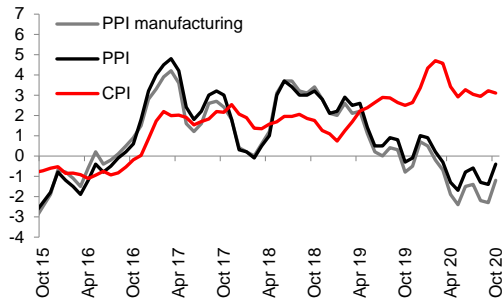


Source: GUS, Santander

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Selected price indexes for Poland, % y/y



Source: GUS, Santander

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