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Economic Comment

Constrained output, producer prices let loose

Marcin Luziński, +48 22 534 1885, marcin.luzinski@santander.pl

Grzegorz Ogonek, +48 609 224 857, grzegorz.ogonek@santander.pl

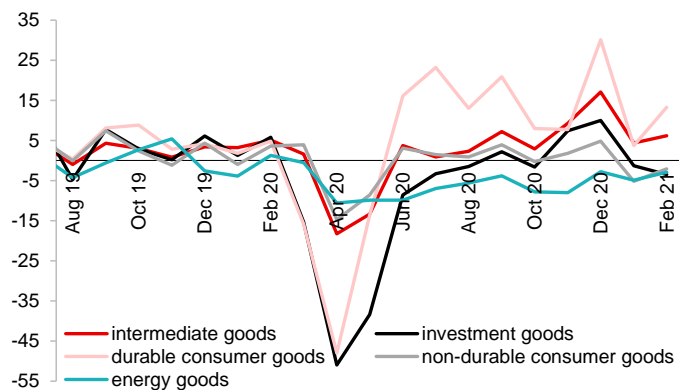
In February Polish industrial output grew by 2.7% y/y vs 4.5% y/y market consensus and our 4.7% forecast, most likely softened by supply shortages. However in SA terms the growth remained solid (4.5% y/y). PPI inflation spiked in February to 2.0% y/y from 1.0% y/y in January, beating the market consensus at 1.4% y/y. Further rises in PPI could create some upward pressure on CPI.

Loss of pace by industry, but some parts remain strong

In February Polish industrial output grew by 2.7% y/y vs 4.5% y/y market consensus and our 4.7% forecast. Also, the January print was revised lower by 0.3pp to 0.6% y/y. It is quite a disappointment but one should notice that the SA growth tells a more positive story: 4.5% y/y, below the 5-6% readings from the previous two months but at the same time much above the readings from Jan-Nov 2020.

The breakdown of output by main industrial groupings also reveals quite positive signals: durables goods managed to rebound by 10pp to 13.3% y/y. and intermediate goods output accelerated to 6.2% y/y from 4.4% (these two groups were the backbone of surprisingly quick and strong rebound of Polish industry in 2020). This was enough to offset the still negative y/y growth in the remaining groups (investment goods, non-durables, energy). In early 2021,

Output by main industrial groupings, %/y



Source: GUS, Santander

Industrial output was most likely softened by supply shortages signalled, for example, in the European automotive sector.

While there are some bright spots in the sub-consensus February production, in general it points to a risk of lower GDP growth in 1Q than is currently expected by the market – and confirming our expectations that y/y GDP growth may fail to rise above -2%, especially when one takes into account the recently announced extended lockdown in Poland and our pessimistic call on February retail sales (due tomorrow).

PPI signals growing pressure on prices

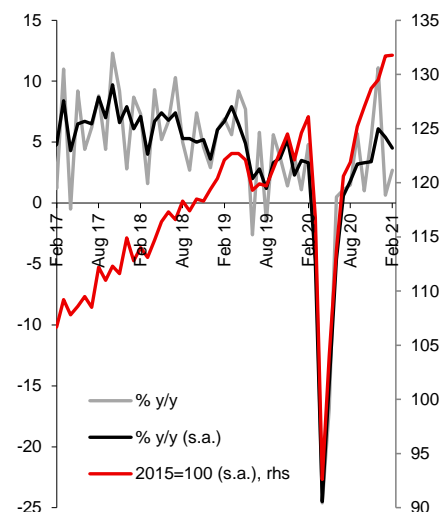
PPI inflation spiked in February to 2.0% y/y from 1.0% y/y in January (revision from 0.7% y/y), beating the market consensus at 1.4% y/y. In monthly terms, prices rose by 0.8% m/m.

While this spike was mostly driven by rally on commodities in February, especially on oil and copper (mining +2.7% m/m, mining of metallic ores +4.6%, manufacturing of coke and petroleum products +8.0% m/m), other categories also recorded an upward momentum, with core PPI rising to 1.4% y/y from 1.1% y/y.

We expect PPI to climb further in the months to come, supported by weaker zloty and supply shortages. Further rises in PPI could create some upward pressure on CPI.

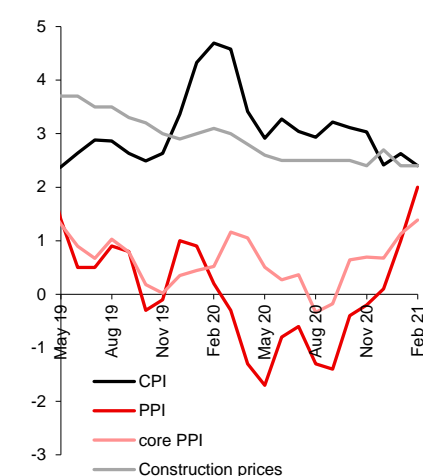
Construction prices rose by 2.4% y/y in February, unchanged versus January.

Industrial output



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 22 534 18 87
 Marcin Luziński +48 22 534 18 85
 Wojciech Mazurkiewicz +48 22 534 18 86
 Grzegorz Ogonek +48 22 534 19 23
 Marcin Sulewski, CFA +48 22 534 18 84

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.