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Economic Comment

Production output and prices keep rising fast

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Industrial production in May rose 29.8% y/y, which was close to market consensus (30.4%) and more than we expected (26.8%). The data confirm that Polish manufacturing sector keeps expanding, with production volume already back on the pre-covid trend with no major signs of slowing down. It bodes well for GDP growth in 2Q21 and subsequent quarters. In the upcoming months the low statistical base effect will be waning so the annual growth rate of industry is likely to go strongly down, even though still in the expansion zone.

In May Polish PPI rose by 6.5% y/y from 5.5% y/y in April, much faster than we (6.0%) and the market (5.8%) had expected. Previous reading was revised higher. Acceleration of producer prices was broad-based.

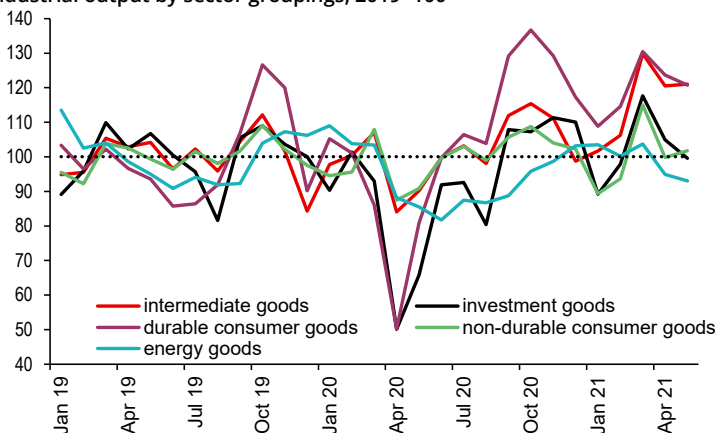
Industrial output still well above pre-pandemic level

Industrial production in May rose 29.8% y/y, which was close to market consensus (30.4%) and more than we expected (26.8%). Seasonally adjusted output growth was up by 29.7% y/y and 0.8% m/m.

Output rose in all industrial groupings, the most in investment goods (51.3% y/y), durable consumer goods (49.4% y/y), intermediate goods (34.2% y/y), with the annual dynamics still being strongly supported by low base effects (but not as much as in April). In order to get rid of the base, we take May 2019 as the reference point and such calculation paints a slightly different picture, with the output of consumer durables up by +29.1%, intermediate goods +12.6%, consumer non-durables +2.5%, but investment goods down by 6.7%. If we go down to particular sectors, strongest 2-year growth rates were recorded in manufacture of computers, electronic and optical products (+53%), electrical equipment (+47.9%), manufacture of rubber and plastic products (+16.9%) and manufacture of products of wood and cork (+15.1%). Despite strong recovery, some sectors are still deep under water, with manufacture of leather down by 22.5%, manufacture of cars down by 14.4% and manufacture of other transport equipment down by 13.9%.

Overall, the data confirm that Polish manufacturing sector keeps expanding, with production volume already back on the pre-covid trend with no major signs of slowing down. It bodes well for GDP growth in 2Q21 and subsequent quarters. In the upcoming months the low statistical base effect will be waning so the annual growth rate of industry is likely to go strongly down, even though still in the expansion zone.

Industrial output by sector groupings, 2019=100

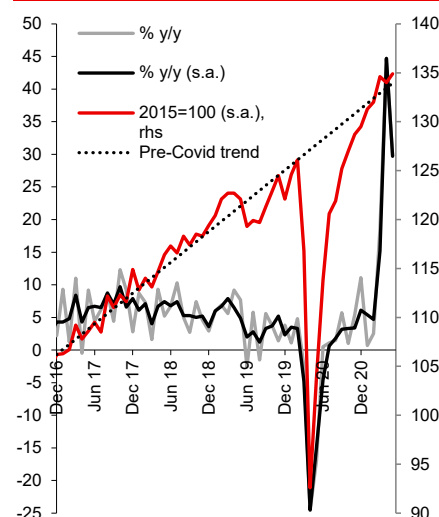


Source: GUS, Santander

PPI beats forecasts once again

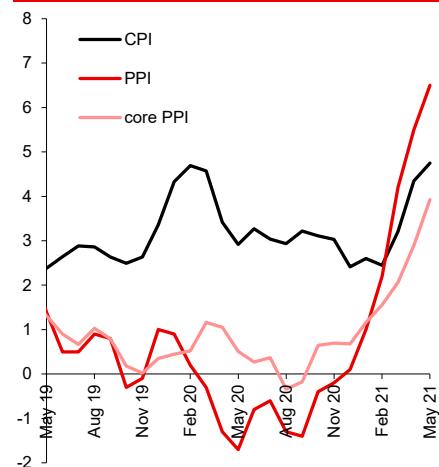
In May Polish PPI rose by 6.5% y/y from 5.5% y/y in April, much faster than we (6.0%) and the market (5.8%) had expected. The May m/m reading of 0.8% beat expectations

Industrial output, % y/y



Source: GUS, Santander

Inflation measures in Poland, % y/y



Source: GUS, Santander

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even though the April figure was revised up by 0.2pp. The manufacturing PPI growth was 6.3% y/y, up from 5.3% and the measure as well as the total PPI growth are now at 9-year highs.

Highest monthly growth rates were still seen in categories related to global commodity prices: metal ore mining +5.9%, coal and lignite up 1.8%, oil refining and coking coal production up 3.1%, metal production +2.3%. However, core PPI measure (PPI ex mining and coke/oil refining) also recorded a large increase, to 3.9% y/y from 2.9% in April and 2.1% in March.

We believe that the surge of PPI has still some more room to go up, but within three months its y/y growth rate may stabilise some 1pp above the current level.

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