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Economic Comment

Output still strong, prices in industry up

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Industrial output rose by 18.4% y/y in June, roughly in line with expectations (we: 19.0% y/y, market: 18.0% y/y). Decline in annual growth rate vs May (29.8% y/y) was caused mostly by base effects. We are expecting industry to remain strong in the months to come, yet the annual growth rate will go further down as the statistical base effect from the first coronavirus wave diminishes. PPI inflation climbed to 7.0% y/y, in line with our expectations and reached the highest level since January 2012. Cost pressure in companies is clearly rising and this will be feeding in the CPI, in our view.

Industry continues to be strong

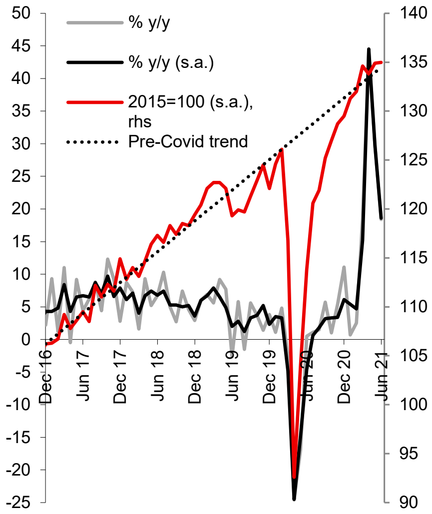
Industrial output rose by 18.4% y/y in June, roughly in line with expectations (we: 19.0% y/y, market: 18.0% y/y). Decline in annual growth rate vs May (29.8% y/y) was caused mostly by base effects. In seasonally-adjusted terms output advanced by 0.2% m/m and 18.6% y/y. June's expansion in industry was mostly driven by sectors producing energy and consumer goods (both durables and non-durables), while investment goods and supplies underperformed a bit. We think that the ongoing recovery will be supportive for output in investment and energy goods as these sectors were generally weaker over the last few quarters. Even more detailed data show strong performances in other transport equipment, beverages, coke and oil refining, tobacco products, wood products and furniture.

Industry is still advancing slightly above pre-covid trend and supply disruptions does not seem to have a strong impact on the sector, even though some branches are clearly suffering (e.g. some car plants are temporarily shut down). We are expecting industry to remain strong in the months to come, yet the annual growth rate will go further down as the statistical base effect from the first coronavirus wave diminishes.

PPI inflation further up

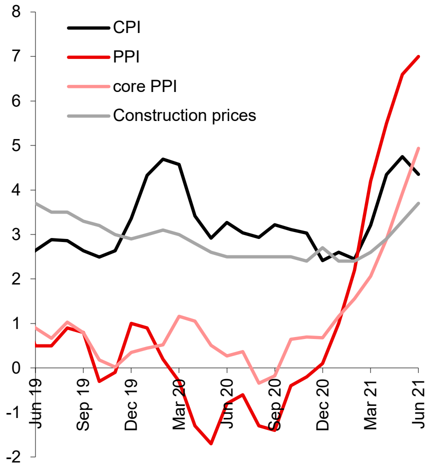
PPI inflation climbed to 7.0% y/y, in line with our expectations and reached the highest level since January 2012. Our estimate of core PPI (ex mining and coke/oil manufacturing) climbed to 4.9% y/y from 3.9% y/y. In our view PPI is likely to push even higher in the months to come. Cost pressure in companies is clearly rising and this will be feeding in the CPI, in our view.

Industrial output



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander

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