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Economic Comment

Industry: prices and volumes are still rising

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Industrial output rose in July by 9.8% y/y with market expectations at 10.6% and our estimate at 8.5%. The seasonally-adjusted m/m growth was quite strong at +0.7%. It still seems the supply issues are not able to threaten the ongoing recovery. PPI inflation advanced in July to 8.2% y/y from 7.2%, beating forecasts once again and reaching the highest level since December 2011.

Industry output keeps rising despite supply frictions

Industrial output rose in July by 9.8% y/y with market expectations at 10.6% and our estimate at 8.5%. The slowdown vs. June (18.4% y/y) was caused by base effects and working day differences, while the seasonally-adjusted July m/m growth was quite strong at +0.7%. While shaping our forecast we assumed a strong negative effect of supply bottlenecks – the fact that the outcome came above our call but below market consensus suggests the supply issue has a non-negligible but only moderate impact on output and is not able to derail the ongoing recovery.

On m/m basis, compared to the usual seasonal patterns, the output of electronics, electric appliances as well as apparel and leather products looked rather weak. Car production was down 11.8% m/m but this falls within the usual summer decline of this industry's activity. Still, its output was also down in y/y terms, by 4.7%, which might have reflect issues with supply of materials and components. At least some car factories had to stop production due to shortages of parts in July.

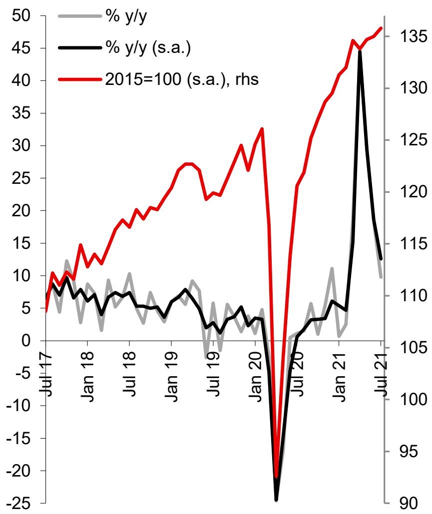
Compared to July 2019 consumer durables production was up 31.1%, intermediate goods were up 16.7%, investment goods up 3.7% and consumer non-durables up 1.4%.

Prices in industry and construction under strong upward pressure

PPI inflation advanced in July to 8.2% y/y from 7.2% in June (upward revision from 7.0% y/y), beating forecasts (we: 8.0%, market: 7.7%) and reaching the highest level since December 2011. PPI went higher partially thanks to weaker zloty and higher commodity prices, but our measure of core PPI (ex mining, coke and oil refining) jumped to 6.2% y/y from 5.3% y/y, confirming strong price pressures in industry. We are expecting PPI inflation to go further up in the following months.

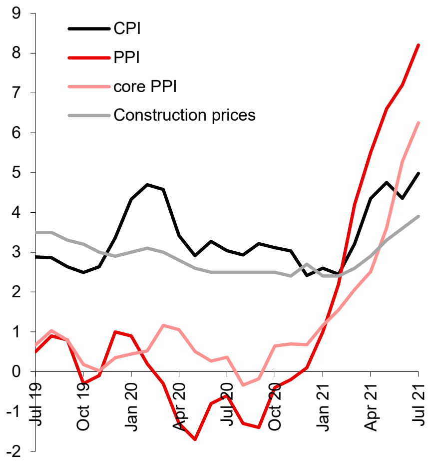
Construction prices advanced by 0.5% m/m for the fourth month in a row, bringing the annual indicator to 3.9% y/y, the highest level since August 2008.

Industrial output in Poland



Source: GUS, Santander

Selected inflation measures, % y/y



Source: GUS, Santander

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