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Economic Comment

Industrial output and PPI beat forecasts

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Industrial output soared by 7.8% y/y in October, well above market consensus and our forecast around 5% y/y. The surprise came from the incredibly strong rebound in production of energy and heating (40.6% y/y), while in manufacturing the activity was decent (5.5% y/y). We think the manufacturing sector will continue growing at a decent pace, driven by export expansion, as the sector remains competitive and extremely resilient. Supply chain disruptions and pandemic lockdowns in Europe may slow the growth somewhat in the nearest months, however. In October Polish PPI inflation soared to 11.8% y/y vs market expectations at 10.8% and our 11.2% forecast. This is the highest reading since 1997. Our core PPI measure went from 7.9% y/y to 8.5%, confirming that the cost pressure on companies remains very strong and is still being transferred to own prices. In November almost all sectoral business sentiment indicators fell due to significantly worse assessment of future business conditions, especially in industry.

Industry beats forecasts thanks to energy production

Poland's industrial output soared by 7.8% y/y in October, well above market consensus and our forecast around 5% y/y. The result seems impressive, especially given the negative impact of lower number of working days (-1 y/y). The seasonally adjusted growth reached 9.8% y/y and 2.0% m/m, confirming a sharp revival of activity in Polish industry at the beginning of fourth quarter.

The data look very good at the first sight, although it has to be noticed that it is mainly due to the incredibly strong rebound in production of energy and heating (40.6% y/y, 35.1% m/m, most likely linked to the recent very strong rise of Poland's energy exports), while in manufacturing the activity was decent but not as impressive (5.5% y/y, 0.1% m/m).

Production of consumer durable goods increased 4.4% y/y and other consumer goods by 3.1% y/y, while manufacturing of investment goods declined by 3.4% y/y. Most of the industrial sectors keep growing, only 9 out of 34 sectors recorded a drop in output (mainly automotive and electronic machinery).

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PPI leaves market forecasts far behind yet again

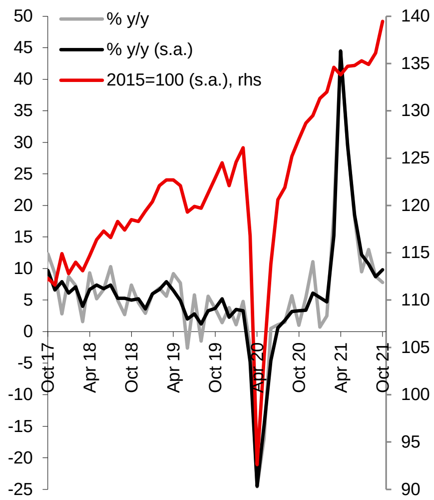
In October Polish PPI inflation soared to 11.8% y/y vs market expectations at 10.8% and our 11.2% forecast. This is the highest reading since 1997. The previous reading of 10.2% y/y was revised to 10.3%. Most of the surprise came from price changes in mining (6.5% m/m) and among utilities (+2.4% m/m). 13.1% m/m price rise in coke production and oil refining pushed higher the manufacturing part of PPI. PPI excluding the categories directly affected by global commodity prices - a measure we call core PPI - went from 7.9% y/y to 8.5%, confirming that the cost pressure on companies remains very strong and is still being transferred to own prices. We assume that PPI inflation will decrease quite visibly with the end of winter.

Prices of construction output increased at an even higher rate, by 5.5% y/y in October from 4.9% in September, with m/m price change at 0.8% (following 0.7% in the previous two months). Construction prices have not been rising this fast since April 2008 and the monthly pace of growth does not suggest that we are close to the peak.

Business sentiment falls in November on worse outlook

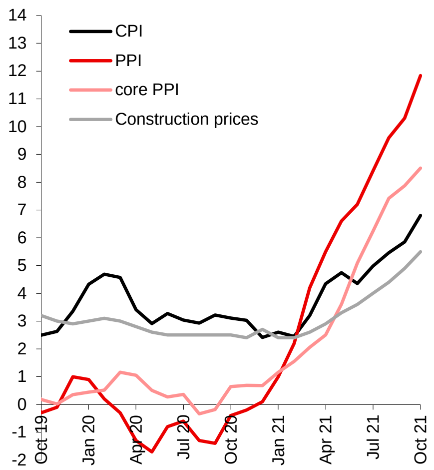
In November all sectoral business sentiment indicators fell in SA terms with the exception of financial and insurance services (most likely the effect of the recent rate hikes by NBP). The decline was caused by significantly worse assessment of future business conditions. Industry companies were particularly more worried with a

Industrial output in Poland



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander

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collapse of the future economic situation index from -8.4 pts to -17.8 pts. This is the worst print since December 2020 and much below the pre-pandemic level (between March and September 2021 the index was keeping above the pre-pandemic level of around -5 pts).

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