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Economic Comment

Output close to our pessimistic call

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September's data on output surprised to the downside but were close to our pessimistic calls, with industry adding 2.8% y/y (market forecast: 4.1% y/y, our forecast: 2.3% y/y) and construction expanding by 16.4% y/y (market forecast: 18.1%, our forecast: 15.8% y/y). In the months to come, we expect the industrial output growth to rebound to c5% on average, i.e. well below the pace we have seen in 1H18 (6-7%). The output data fit our expectations that the Polish economy has already recorded a business cycle peak and the slowdown has started in 2H18 with GDP growth well below 5% expected. We estimate 3Q GDP growth was at c4.5% y/y. In line with our forecast, PPI inflation decreased in September to 2.9% y/y from 3.0%, but may hold at c3% in the coming months.

Output in industry and construction well below market consensus

September's data on output surprised to the downside but were close to our pessimistic calls, with industry adding 2.8% y/y (market forecast: 4.1% y/y, our forecast: 2.3% y/y) and construction expanding by 16.4% y/y (market forecast: 18.1%, our forecast: 15.8% y/y).

Industry was clearly dragged lower by the negative working day effect, but in our view the negative tendencies in global trade, which have already undermined results of German industry and exports, are also hitting the Polish industry. Manufacturing may also be under negative influence of (possibly temporary) problems in European car industry due to new emission standards. Manufacturing is actually the main culprit behind the slowdown (deceleration to 2.0% y/y from 5.4% y/y). However, note issued by the Stats Office lists a few sectors recording still robust growth rates of 7-8% y/y, like metal products, machinery and equipment, electrical appliances.

A slightly different picture was seen in the seasonally adjusted data (i.e. working day adjusted). According to these measures, in September industrial production growth accelerated to 5.4% y/y from 5.0%, while the construction sector rose to 19.9% y/y from 19.0%. These are still worse reading than the 1H18 average (by 1pp and 4pp, respectively).

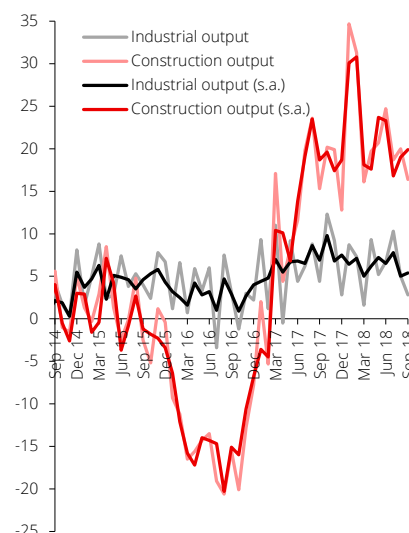
The civil engineering was still the fastest growing subsector (rising 23.1% y/y) of construction and assembly production. Activity of this subsector reflected higher level of local government spending (before the local elections).

In the months to come, we expect the industrial output growth to rebound to c5% on average, i.e. well below the pace we have seen in 1H18 (6-7%). Construction is running at a high speed but in our view one should expect a deceleration amid extremely high capacity utilization rate in this sector. The output data fit our expectations that the Polish economy has already recorded a business cycle peak and the slowdown has started in 2H18 with GDP growth well below 5% expected. We estimate 3Q GDP growth was at c4.5% y/y.

Prices in industry and construction keep rising

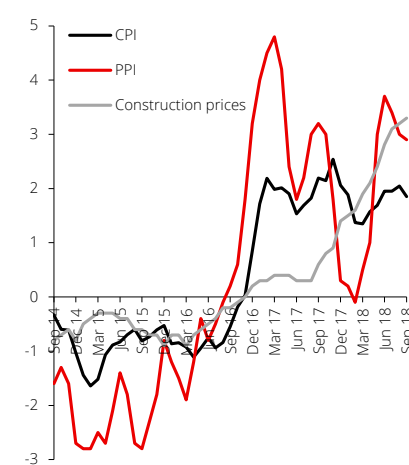
In line with our forecast, PPI inflation decreased in September to 2.9% y/y from 3.0% y/y in August. Drop of PPI inflation is mainly caused by high base from the previous year, but this year prices rose 0.4% m/m in September which is a quite high result. Price growth was supported mainly by global factors like weakening of the zloty and higher prices of commodities, especially oil, so the most significant increase in prices were recorded in sections: coke production and oil refining products (2.0% m/m). We expect that in coming months, PPI growth will stay close to 3% y/y. Construction and assembly production prices are still on the rise and in September they accelerated to 3.3% y/y. In monthly terms, in this sector prices grew for 15 months in a row and in our opinion they will still go up because of rising material costs and labour costs in construction (this sector is recording a two-digit pace of wage growth).

Output growth, % y/y



Source: Stats Office, Santander Bank Polska

Inflation measures, % y/y



Source: Stats Office, Santander Bank Polska

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