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Economic Comment

Output growth already positive in June

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Industrial production rose 0.5% y/y in June, well above market consensus. The seasonally adjusted growth was still negative (-4.9% y/y), but still, the data bring a huge positive surprise, suggesting that the economy started recovering from the Covid-related freeze much stronger and much faster than we thought. In June producer prices declined 0.8% y/y, slightly less than expected

Much stronger and faster recovery in production

Industrial production rose 0.5% y/y in June, well above market consensus (-6.4% y/y) and our forecast (-11.4% y/y). The move came after almost -24% y/y drop in April and -17% y/y in May. The seasonally adjusted output was still below zero, at -4.9% y/y, according to GUS estimates, which shows that the improvement in June was partly the effect of higher number of working days than last year (2 more). But still, the data bring a huge positive surprise, suggesting that the economy started recovering from the Covid-related freeze much stronger and much faster than we thought.

The sharpest improvement took place in production of durable consumer goods (16.2% y/y); at the other side of the spectrum was output of investment goods (-8.6% y/y).

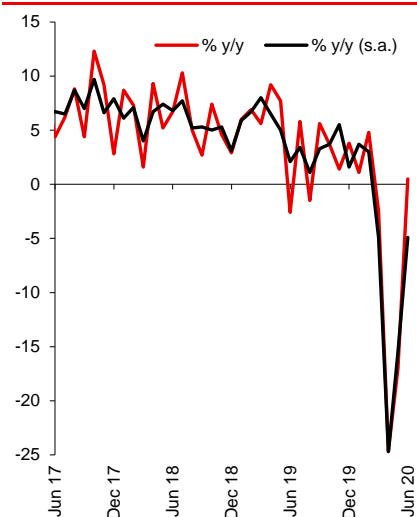
This is already the second positive surprise in June's data (after labour market stats on Friday). If the next releases (construction, retail sales) also show strength, we may start thinking about revising up the GDP growth profile for 2Q20 and the coming quarters.

PPI growth also higher than expected

In June producer prices declined 0.8% y/y, slightly less than we and the market had expected (-1.0%). The previous reading was corrected to -1.7% y/y from -1.5%. The rebound in oil refining (16% m/m) and in non-coal mining (6.4% m/m) were mostly responsible for the rebound. The 2.4% y/y decline in manufacturing from May was reduced to -1.5% y/y, with the m/m growth turning positive after five months of negative readings. We think that in 4Q months PPI growth may already approach zero in y/y terms.

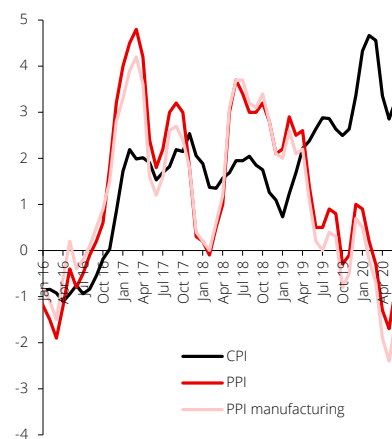
Construction prices growth remained at 2.6% y/y.

Industrial output



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander

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