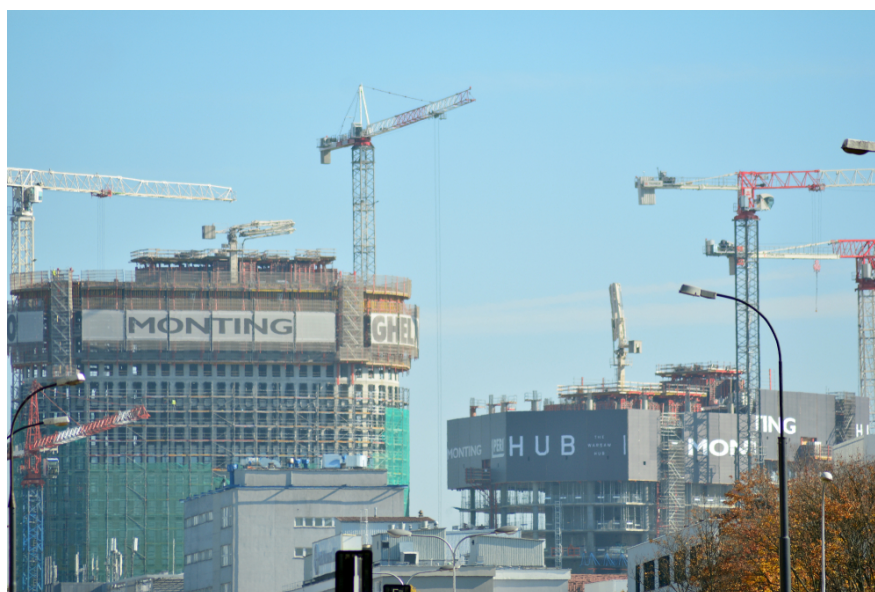


## Polish industrial output shoots up

Industrial and construction activity in October surprised positively thanks to a recovery in the automotive sector and strong infrastructural spending. But a slowdown in global trade should see growth moderate towards the end of this year and into 2019



Construction of the 'Warsaw Hub', Poland

### Readings above consensus

There's been a big rise in industrial production in Poland, increasing from 2.8% to 7.4% YoY in October. That's way above the 6.6% consensus. The Central Statistical Office pointed to a relatively limited slowdown in seasonally adjusted data (down from 5.4% to 5% YoY). The production backdrop indicates strong increases in export sectors, particularly in the production of electrical equipment (19.5%YoY), automotive (9.1% despite problems of this sector in Germany) and machinery (8.1%). The second source of growth are construction related, such as metal production (13%) or non-metallic raw materials (11.1%).

7.4%

Higher than expected

## Polish Industrial output in October, YoY

Automotive recovery, strong infrastructure spending

**Automotive sector performing strongly**

In our view the strong reading was likely caused by a recovery of activity in Polish subcontractors for the European automotive sector. The automotive production numbers in Germany increased from -15.5% in August to -5.6%YoY in September, presumably as a problem with new environmental standards for car production (WLTP) were absorbed. The second element behind the stronger industrial and construction readings is the ongoing revival in EU projects in Poland. Payments of EU funds are growing at the rate of 80%YoY. While construction production in September did not show this phenomenon, public investments were probably finalised in October before local government elections.

Activity in the construction sector is stronger than expected - there was an increase from 16.4% to 22.4%YoY (consensus 20.9%). Growth was fuelled by a high contribution from infrastructure investments such as civil engineering works (October dynamics equal to 25.2%YoY). The construction of buildings surprised positively (26%YoY) – we associate the strong reading with real estate activity.

**The growth outlook**

After the release of October figures, we forecast that the GDP growth in 4Q18 should decelerate from 5.1% to around 4.5-4.7% YoY. We are still wary of the activity slowdown in Germany and more widely in Europe. The negative pace of quarterly German GDP in 3Q18 was probably caused by temporary slowdown in the automotive sector, especially at the beginning of 3Q18. It is possible that before the end of the year there will be a recovery caused by overcoming problems with environmental standards, but other data suggest that international trade is slowing strongly, which will affect the rate of GDP in Germany and Poland in 2019.

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