May’s data disappoints hopes for Polish economic recovery

May's national economic data has fallen short of consensus expectations. The anticipated recovery remains elusive, although the available data does not include the performance in services and SMEs. The data supports further rate cuts by the National Bank of Poland, but the Middle East conflict complicates July's monetary policy easing

May saw another disappointing decline in construction

Increase in annual dynamics of industrial production due to calendar effects

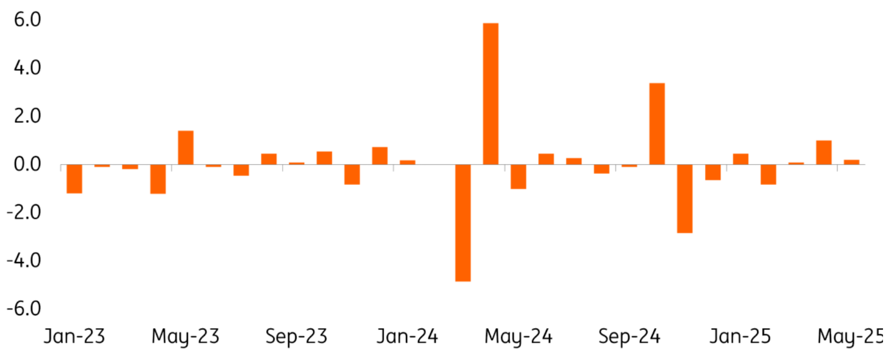
Today's data for Polish industry can be described as slightly disappointing, as it fails to confirm the anticipated economic recovery. In May this year, industrial production was 3.9% higher than a year ago, indicating an increase in annual dynamics (from 1.2% in April), but this is primarily due to the calendar arrangement, i.e., one more working day in May this year compared to last year. The reading at the level of 3.9% was below the consensus (4.4%), while compared to the previous month, the seasonally adjusted growth was only 0.2% month-on-month. In our opinion, this indicates stagnation rather than a recovery in industrial activity.

Indicators of economic sentiment also point to stagnation in industrial activity, including the results of the logistics managers' survey (PMI decline to 47.1 in May from 50.2 in April) and data published on Friday by the CSO, which show that the seasonally adjusted general business climate indicator for manufacturing was -9.2 in June, significantly below the long-term average (0.6).

In terms of sectors, it is worth noting the strong acceleration in annual dynamics in areas such as "manufacture of metal products" and "manufacture of machinery and equipment," as this may suggest a recovery in industries related to defence production.

In the medium term, the dynamics of Polish industry are limited by stagnation in European industry, resulting from, among other things, the geopolitical situation and the trade policy of the United States. In April, the dynamics of German industry slowed (to -1.4% YoY), having previously experienced a temporary recovery related to accelerated sales to the American market (so-called frontloading before the introduction of tariffs by President Trump). However, the acceleration of public investments related to the use of EU funds from the National Recovery Plan should contribute to a recovery. The latest revision of the Plan, however, shifts some payments from the European Commission from the second half of 2025 to the first half of 2026, so we will likely have to wait until 2026 for a solid rebound in infrastructure investments.

Industrial production (m/m SA)



Source: CSO data, ING estimates.

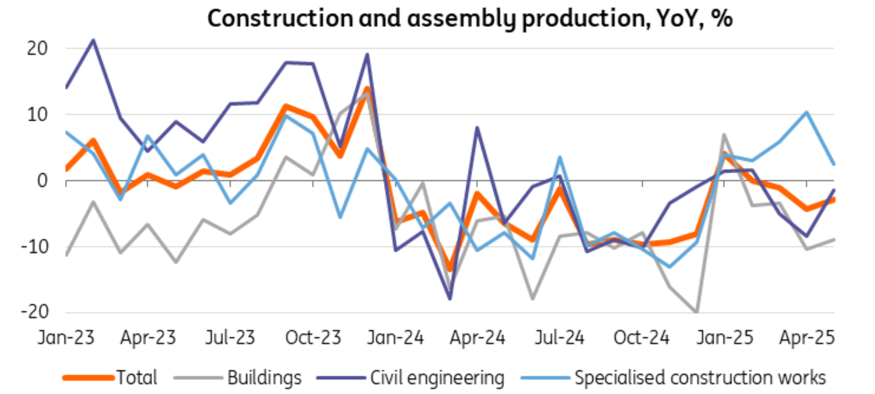
Another disappointing decline in construction

Construction and assembly production fell by 2.9% YoY in May, below our forecast of -0.7% and the consensus of -2.5%. The dynamics were slightly better than in April (-4.2%), but this is partly explained by a lower base and a higher number of working days. Significant recovery in public investments is still not visible, although the local trough is behind us. Growth in specialised works has significantly slowed.

Year-on-year, May still saw a deep decline in building construction (-9.0% YoY following -10.3% in April). According to our expectations, the housing market remains weak in the context of high interest rates (despite the NBP's interest rate cut in May) and an oversupply of flats. The decline in infrastructure construction production was significantly shallower than the previous month (-1.4% YoY after -8.3% the previous month), but with a low statistical base. Additionally, the growth in specialised construction works slowed significantly (to 2.6% YoY in May from 10.5% YoY in April).

As for public investments, the formal revision of the National Recovery Plan (KPO) has just been completed (significant reallocation of PLN26bn to defence), but the disbursement of funds to beneficiaries is relatively slow. Poland has obtained approval to extend the deadline for using KPO funds by several months until the end of 2026; hence, the anticipated recovery in public infrastructure investments will likely be seen only in 2026. The latest revision of the KPO shifts some expected disbursements from the Polish KPO by the European Commission from the second half of 2025 to the first half of 2026.

Construction



Source: CSO data, ING estimates.

Annual wage dynamics slow in May

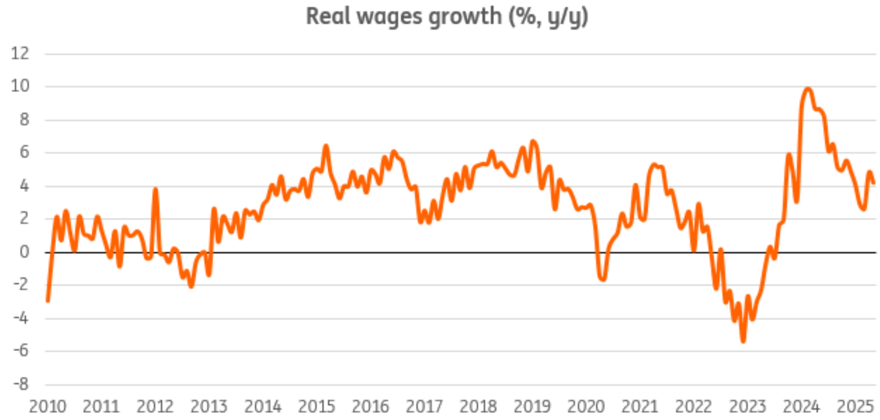
The dynamics of the average wage in the enterprise sector slowed in May to 8.4% YoY from 9.3% YoY in April, and the average nominal wage amounted to PLN 8670. The result was lower than our expectations and the market consensus (9.2% and 8.8%, respectively). The weaker wage dynamics are partly due to a decrease in the mining sector (3.3% YoY after an increase of 7.1% in April).

In May, the wage dynamics in the energy sector were also significantly weaker, although still above the average wage in the enterprise sector (8.7% YoY compared to 19.0% YoY in April). Double-digit annual dynamics were still visible in agriculture, forestry, hunting and fishing (12.1%), information and communication (11.1%), and administration and support activities. From the perspective of monetary policy, lower wage pressure is good news and creates room for further declines in core inflation.

The average employment in the enterprise sector fell by 0.8% YoY in April (ING and consensus: -0.8% YoY and -0.7% YoY) after also falling by 0.8% YoY in April. Compared to April, the number of jobs decreased by 14,000 to 6,433,000, which is the largest decline since August last year. According to a survey published last Friday by the Central Statistical Office, the vast majority of surveyed enterprises intend to maintain employment, although in the case of "relatively easily replaceable employees," the percentage of respondents wanting to reduce employment is higher than those ready to increase it.

In summary, May's data does not change the current picture of the labour market, which shows signs of gradual cooling. Wage pressure has slightly decreased, and wages are growing at a single-digit rate, after dynamic double-digit increases in the previous three years. The unemployment rate remains close to record-low levels despite the decline in employment.

Real wages



Source: CSO data, ING estimates.

Implications for monetary policy

May's figures from the real economy are disappointing for those monetary policymakers who were expecting a firm economic recovery. With the wage pressure easing and the continued stagnation of industrial production and construction, the prospect of interest rate cuts in the second half of 2025 is still valid. However, given elevated uncertainty regarding the Middle East and oil prices, the likelihood of monetary policy loosening in July seems unlikely.

We expect further cuts starting from the September meeting, with a growing probability of stronger action than 25bp. Much will depend on the global environment connected to the trade war saga and geopolitical tension, and the projected disinflation.

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