

Weak production in Poland bodes ill for trading partners

The March contraction in production seems weaker than the calendar effect would suggest, possibly reflecting weak exports and competition from cheap imports despite the recovery in domestic demand



Industrial production fell by 6.0% year-on-year in March (ING: -2.4%, consensus: -1.0%); after increasing by 3.3% YoY in February (data not revised). In our opinion, the year-on-year decline was mainly due to the unfavourable calendar effect (two business days less than a year earlier subtracted approximately 5.7pp). Theoretically, after correcting the data for the calendar effect, the March production rate is similar to February (+0.7% YoY), but we are concerned about the data structure and declines in many industries, not only weak mining but also manufacturing. Also, the Central Statistical Office data, adjusted for the influence of seasonal factors, indicates a decline in production of 3.9% YoY and 5.5% month-on-month.

We hope this poor production is some kind of anomaly. The data is inconsistent with signals of a slow recovery in global industry (and even in Germany) and the stronger domestic demand fuelled by the highest real wage dynamics since the late 1990s. In our opinion, tomorrow's retail sales should show strong domestic demand, just as wages are predicting today. Weak production despite the recovery in domestic demand may indicate still weak exports. We see that companies are increasingly feeling, among other things, competition from Asia, while demand from Poland's

main trading partners is still relatively weak.

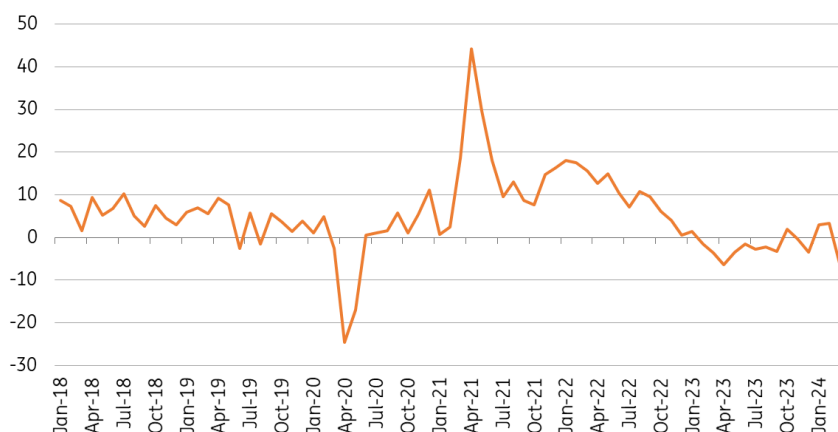
We see signs of recovery in global industry, although they remain fragile and may suffer from geopolitical tensions. The recovery is uneven, and so far the results of German data, with which the domestic industrial sector is closely linked, have been disappointing. Recent data shows that a slow recovery is finally starting in this economy, but hard data is needed to confirm this.

The production sector should gradually be supported by the recovery of domestic demand, in particular the expected revival of consumption, based on the high growth in household disposable income - the pace of real wages is the highest since the late 1990s and we hope that tomorrow's retail sales data will confirm this.

Source: GUS

Industrial production (%YoY)

The industry recovery faded in March, possibly due to weak exports despite stronger domestic demand



Source: GUS

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

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