

Poland's gradual recovery in 4Q is set to accelerate this year

The economy is preparing for a rebound. After a mostly lacklustre fourth quarter, December brings hope of a recovery. Manufacturing is improving and construction is stronger though retail trade remains weak. We estimate that the Polish economy grew 1.4-1.5% year-on-year in 4Q vs 0.5% in 3Q, and see GDP growth of 0.3-0.4% in 2023 and around 3% in 2024

In this bundle



Poland

Mixed December data from Poland's industry

Poland's industrial output was still down on a year-on-year basis in December, but it increased in seasonally-adjusted month-on-month terms

By Leszek Kasek and Rafal Benecki

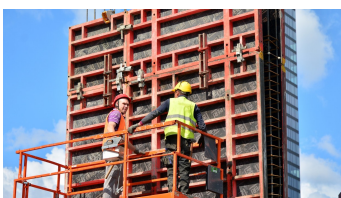


Corporate Sector Coverage | Poland

Polish construction sees a solid year-end rebound

Subsidised government credit and EU co-financed investments helped boost the rebound seen in Polish construction late last year

By Piotr Poplawski and Rafal Benecki



Poland

Poland's wage growth temporarily returns to single digits

Corporate sector employment surprised on the upside in December, though the number of jobs declined by 0.1% year-on-year. A slowdown of wage growth below 10% is likely transitory

By Rafal Benecki



Poland

Poland's retail sales disappoint at year-end

Despite the weaker data for late 2023, we believe consumption will rebound this year as real disposable income rises faster than before the pandemic

By Piotr Poplawski and Rafal Benecki

Mixed December data from Poland's industry

Poland's industrial output was still down on a year-on-year basis in December, but it increased in seasonally-adjusted month-on-month terms, albeit with uncertainty related to energy output. There are signs of a modest rebound after two very weak months in the fourth quarter of 2023



Poland's industrial production fell by 3.9% YoY in December after a 0.3% fall in November (revised upwards from -0.7%) but less than expected, (our forecast -6.4%, consensus: -5.2%). Energy was exceptionally strong (11.4% YoY, probably the result of a warm winter a year ago, possibly overestimated due to the strong volatility of energy prices). Manufacturing continues to perform poorly in YoY terms (down 5.6%). It remains under pressure from weak demand from Europe, cautious spending by Poles and the negative working days difference.

Seasonally-adjusted (SA) data shows a far more optimistic picture. We had two fewer working days in December 2023 than a year earlier. On a SA basis, industrial production rebounded strongly by +2.9% MoM from November 2023, after two months of slight decline. Even when excluding the uncertain energy sector, manufacturing recorded a marginal increase (seasonally adjusted MoM) after a few weaker months, which we cautiously take as a sign of recovery.

The path in industrial production over the course of 2023 largely followed the data from Europe, in particular Germany, where industry has been stuck in recession. The marginal improvement in manufacturing matches some recovery in soft indicators for the eurozone, such as the PMI.

In December, 23 of 34 industry divisions recorded declines on a year-on-year basis

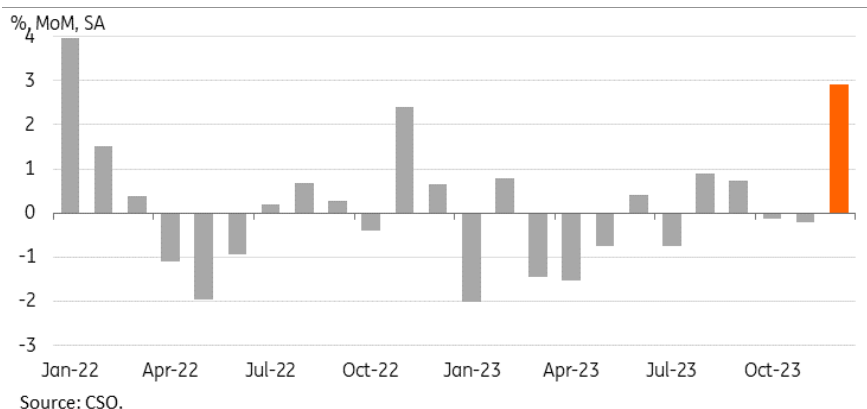
As far as the sectoral performance is concerned, declines in YoY terms were recorded in 23 of the 34 industry divisions reported by the statistical office (these are working day impacted data though). These included the manufacture of electrical equipment (-23.8%), chemicals (-15.3%), wood products (-13.7%), rubber and plastics (-13.3%), non-metallic minerals (-11.8%), and machinery repair and maintenance (-9.0%).

On the other hand, there was an impressive increase in the production of other transport equipment (+47.8%). This is a very volatile category. A big jump was recorded by the previously mentioned manufacturing and supply of electricity, natural gas and water (+11.4%), but this is a category that we believe may be subject to large price fluctuations that overstate the real growth. We also saw increases in production in the categories of printing (+7.5%), pharmaceuticals (+3.5%) and the manufacture of motor vehicles and trailers (+2.5%). Generally, the data shows growth in the production of energy-related goods and some investment goods (vehicles), but the production of consumer goods, including durable goods (e.g. furniture), is performing poorly.

December brought a mixed picture for industrial activity, after two very weak months in the fourth quarter of 2023. The seasonally-adjusted data for December reflects an increase in production, even when excluding volatile output in energy. The revision of the PMI in Poland in December after an impressive rise a month earlier suggests a rather gradual improvement in the coming months, following trends from Germany and the eurozone. This week we will see the flash PMIs for January where we expect a slight improvement.

We estimate that the economic recovery in Poland continued in the fourth quarter and GDP grew by 1.4-1.5% YoY vs 0.5% YoY in the third quarter of 2023. We estimate full-year GDP growth of 0.3-0.4% YoY, in line with our forecasts. We expect further improvement and project real GDP growth of around 3% in 2024.

Industrial production in Poland, change in %, MoM, seasonally adjusted



Author

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Polish construction sees a solid year-end rebound

The Polish construction sector's strong rebound continued in December, driven by subsidised government credit and EU co-financed investments



Construction output growth turned positive in Poland after 12 straight declines

In December last year, construction and assembly production rose by 14% year-on-year, well above consensus (4.1%). It saw a 3.9% YoY increase in November. Despite less favourable calendar effects – including two working days less in December 2023 than in 2022 – there were several driving forces behind the rebound in momentum:

1. Slightly warmer weather at the end of 2023 than 2022, facilitating construction work.
2. The finalisation of investments with EU funds before the end of the accounting period of the previous EU perspective. Civil engineering construction increased by as much as 19.2% YoY.
3. Further improvements in residential construction, related to the rebound in demand caused by the government's low-cost loan programme. Building construction increased by 13.4% YoY.
4. A very low December 2022 base, particularly for specialised works.

2024 should bring further improvements in the housing market. New measures will be introduced to stimulate an already solid rebound in the mortgage market. In our view, this will support further

development in housing construction. The number of dwellings under construction has been gradually improving since the bottom in summer 2023, and this effect should accelerate this year.

Prospects for categories related to infrastructure investment (particularly for civil engineering construction) look less optimistic. Projects financed from the old EU budget have almost been completed. In contrast, investments co-financed from the National Recovery and Resilience Plan will start with a delay. Launching projects from the new EU budget is also set to take time.

Author

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Poland's wage growth temporarily returns to single digits

Corporate sector employment surprised on the upside in December, though the number of jobs declined by 0.1% year-on-year. A slowdown of wage growth below 10% is likely transitory



Polish workers at a construction site in Warsaw

Employment in the corporate sector fell by 0.1% YoY in December, better than the consensus and November data (-0.2% YoY) and our forecast (-0.3%). In month-on-month terms, there was an increase in employment of 1,300, after adjusting for seasonal variations, the first increase in employment since April last year.

In our view, this is a very favourable reading, given the mediocre production dynamics data for fourth quarter 2023, where only December brought the first tentative signs of improvement after a weak October and November. In an environment of low labour availability, companies are reluctant to cut payrolls, which is weakening the relationship between activity and employment levels. The phenomenon of job hoarding can be seen for many months.

The published data show strong services and still weaker industry (employment in manufacturing fell by 1.0% YoY), while it increased in sectors such as information and communication (2.6%); culture, entertainment and recreation (2.9%), and accommodation and catering (5.0%).

Wage growth in December was 9.6% YoY, well below consensus (11.6%) and the November reading (11.8%), but close to our expectations (9.4%). The single-digit wage growth was last seen in January 2022. Such a slowdown in wage growth was due to one-off factors: the annual bonuses

in mining and energy were brought forward to October from December due to the elections. Secondly, the low number of working days also deducted from wage growth. The remunerations dynamics in the manufacturing sector was 10.6% and remained at a similar level to November (11.9%). Central Statistical Office data also show that for the whole of 2023, the average wage in the business sector was PLN7,444, which is 11.9% higher than in 2022.

In the coming months, we expect wage dynamics to return to double-digit levels, mainly due to the high increase in the minimum wage on 1 January 2024 (by 17.8%, from PLN3,600 to PLN4,242), and the low level of unemployment. On the other hand, factors limiting wage dynamics will be the gradually declining profitability rates in the corporate sector and a lower level of inflation than last year. An important question for this year is to what extent real wage growth will translate into household spending dynamics.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Poland's retail sales disappoint at year-end

The recovery in consumer spending has been slow so far, despite a marked rebound in real wage growth, as Poles increase savings. Despite the weaker data for late 2023, we believe consumption will rebound this year as real disposable income rises faster than before the pandemic



Shoppers at the Poznan City mall in Poland

- Retail sales in December 2023 fell by 2.3% year-on-year in real terms, compared to the consensus estimate of +1.7%, and following a 0.3% decline in November. Sentiment, including on spending plans, has improved, but the propensity to save has also increased, probably due to high price growth in previous quarters.
- Purchases of durable goods, i.e. furniture, consumer electronics, and white goods decreased by -11% YoY and continue to underperform. The decline in fuel sales also deepened relative to November (-6.4% vs -0.9% YoY in November). The collapse in demand in this category began in November when the effects of promotional fuel prices expired. Poles likely continued to benefit from October's stocks. Invariably, the strongest sales dynamics remain in the category of motor vehicles, motorbikes, and parts (10.2% YoY), although slightly weaker than a month ago (11.8%). The fulfilment of delayed orders from the pandemic period continues. In the other categories, YoY sales dynamics were similar to the levels of a

- month ago.
- Despite the weaker data for the end of 2023, we continue to believe consumption will rebound this year. The growth of real disposable income is already higher than before the pandemic. In our view, this will be sustained by, among other things, high wage growth, the indexation of social benefits (based on the end of high inflation) and the further deceleration of inflation in 1Q24. We can also see an improvement in household sentiment, including declared spending plans. At the same time, the declared increase in the propensity to save is a problem. This suggests that consumer spending dynamics in 2024 may improve at a slower pace than expected so far.

Conclusions from full set of data for December

- There are cautious signs of a recovery in manufacturing, after two very weak months in 4Q23. Seasonally adjusted data for December shows an increase in month-on-month output in manufacturing. The strong rebound in total output (+2.9% MoM) is likely distorted by the energy sector, where the statistical office traditionally has trouble measuring price changes. Construction shows a further rebound as well.
- Employment data came in better as well. Seasonally adjusted full-time employees jumped for the first time since April 2023, but mainly due to services rather than industry. Weaker wage growth is likely a one-off. As we predicted, bonuses came down after the election period and companies limited wage hikes ahead of a large minimum wage increase (c.17%) in January 2024. Both factors will soon dissipate in 2024.
- Retail sales remain weak, but the category is disrupted by the flow of migrants. In real terms, household incomes are already growing as fast as before the pandemic, but Poles are more willing to save.
- The economy is preparing for a rebound. For most of 4Q23, the momentum slowed after a better 3Q23, but December brings hope of a recovery.
- We estimate that the economic recovery in Poland continued in 4Q23 and GDP grew by 1.4-1.5% YoY vs 0.5% YoY in 3Q23. We estimate full-year GDP growth of 0.3-0.4% YoY, in line with our forecasts. We expect further improvement and project real GDP growth of around 3% in 2024.
- Still, given weak eurozone activity and a high propensity for Poles to save, it may prove less impressive than recently expected.

Author

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.