

## A slow recovery for Polish industry continues despite headwinds

Poland's industrial output reading fell short of expectations in January but turned positive despite an unfavourable external environment. At the same time, PPI deflation deepened to -9.0% year-on-year. Economic recovery in 2024 will likely rely on domestic demand, while soft export demand and a strong PLN may weigh on GDP performance



The industrial landscape of the Gdansk Shipyard, Poland

### Annual output turned positive after shrinking in December

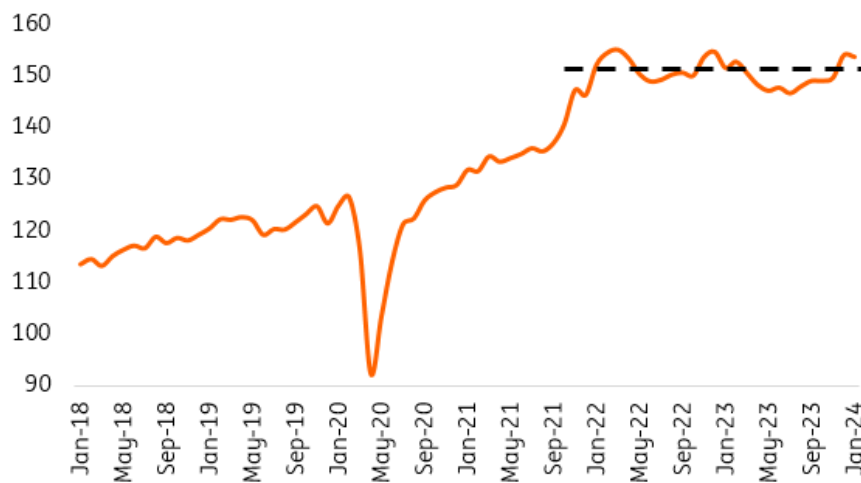
Industrial production rose by just 1.6% YoY in January (consensus and ING's view was 3.1%), following a 3.5% YoY decline in December (data revised upwards). The improved annual growth was supported – among other things – by calendar effects. January 2024 had one more working day than January 2023, while December 2023 had two fewer working days than the previous year.

The seasonally adjusted data indicates that the gradual recovery of Polish industry is continuing despite a number of unfavourable factors. Industrial production recorded a slight decline of -0.2% month-on-month (seasonally adjusted) after a very strong December, when growth was around +2.9% MoM. Production in manufacturing (where there is no impact of volatile data from the

energy sector) also increased by 1.6% YoY (NSA).

## Industrial output broadly stagnant in recent quarters

2015=100 (SA)



Source: GUS.

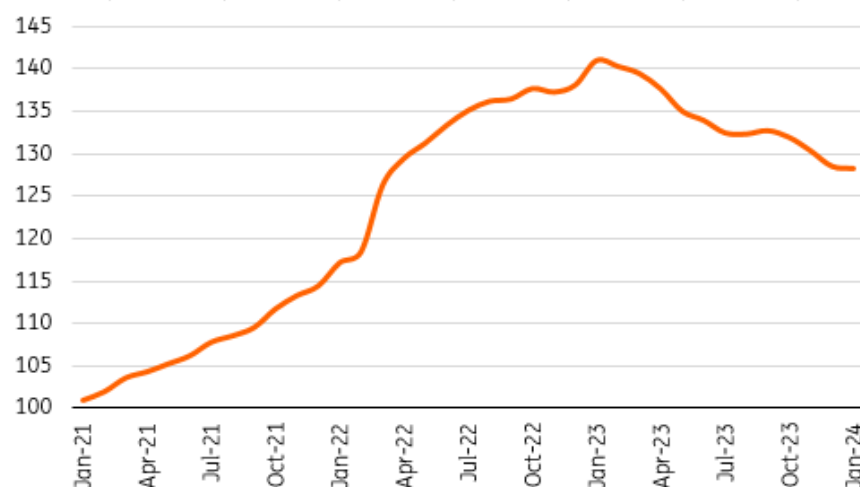
Among the major divisions of industry, the largest increases were in repair, maintenance of machinery and equipment (32.4% YoY), manufacture of passenger cars, trailers and semi-trailers (21.0% YoY) and other transport equipment (20.4% YoY). The deepest declines were in the manufacture of electrical equipment (-26.2% YoY), coal mining (-15.3% YoY) and the manufacture of other non-metallic mineral products (-9.2% YoY). In the main groupings, the production of capital goods and non-durable consumer goods increased, while production of intermediate, energy and durable consumer goods decreased. This suggests weak export demand (low production of intermediate goods) and a cautious attitude from consumers towards purchases of durable goods.

## Producer price deflation deepening

Producer prices deflation deepened to 9.0% YoY (consensus was -8.2% and ING's view -7.5%), after falling by 6.9% YoY in December (data revised downwards). Compared to December, producer prices fell by 0.2%, which – combined with a high reference base form January 2023 when prices rose by 2.1% MoM – translated into a sharper annual deflation. Compared to December, prices rose slightly in manufacturing, while marked declines were observed in mining and energy production. Continued producers' price deflation suggests low pressure on consumer goods prices.

## Producers' prices still in downward trend

PPI, Dec 2021=100



Source: GUS.

## Short-term outlook

We expect the slow recovery of production to continue in the next few months, as there is solid ground for a rebound in domestic demand and we see a slow recovery in global manufacturing. Domestic demand should lead economic growth in Poland on the back of recovery in household consumption amid improving real disposable incomes. The decline in inflation is faster than had been expected earlier, while nominal wage growth and social benefits should increase.

The global economy is showing signs of recovery in manufacturing, with most regions across the world seeing an improvement in orders and a decline in inventories – but this positive trend is least dynamic in the euro area. The pace of Germany's recovery underperforms global and European trends, which is important as the country is a key target market for Polish industrial products. We expect the recovery of Polish industry and the economy as a whole to continue in 2024, with the main risk factors being the fragile condition of the main export markets and the strong PLN exchange rate, with the EUR/PLN level the closest it has been to exporters' "break even" since 2007.

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