

## Poland's economy has bottomed but anaemic growth lies ahead

March data from the real economy indicates a decline in GDP in the first quarter, which we now estimate at 1.5% year-on-year compared to -1.2% YoY expected so far. This was most likely the low point of the current downturn cycle, but we should expect weak annual GDP growth (probably below 1%) in the coming quarters



Poland's economy should show weak growth in the coming quarters

### Falling retail sales point to further contraction in consumption

Retail sales fell 7.2% YoY in March (ING: -6.2%; consensus: -5.7%). Stripping out seasonal factors, sales contracted by 1.3% MoM. A high reference base contributed to the deepening of the YoY decline. In March 2022, the first wave of refugees from Ukraine arrived in Poland, which boosted sales of food, clothing and pharmaceuticals. March data shows that the deep decline in fuel sales continued (-20.7% YoY), food sales fell for the third consecutive month (again by 4.6% YoY), and sales of furniture, consumer electronics and household appliances have been falling on a monthly basis since May (except in January when +1.4% YoY was recorded).

The broader economic context is also unfavourable. High inflation has translated into a decline in real purchasing power, resulting in a drop in consumption. We forecast that household consumption declined by about 3% YoY in 1Q23, following a 1.1% YoY drop in 4Q22. We expect a

slight rebound in consumption only in 2H23, provided disinflation continues.

## Continued decline in industrial production

Industrial production fell by 2.9% YoY last month (ING: -1.5%; consensus: -1.9%), following a 1.0% YoY decline in February. Seasonally-adjusted output dropped by 1.0% MoM.

The weak March result was heavily weighed down by a high base in energy generation, which translated into a 21.8% YoY decline in output in this section. Manufacturing production declined for the second consecutive month (-0.4% MoM), which we link to weakening demand from European, including German, manufacturing. Mining also recorded weak results (-7.1% YoY).

Among the main divisions of manufacturing the deepest declines were posted in wood (-22.0%), chemicals (21.8%) and metal manufacturing (-19.8%). In contrast, dynamic growth continues in the automotive industry and related industries. The production of automobiles, trailers and semi-trailers increased by 36.5% YoY, electrical equipment (including batteries for autos) by 20.3%, and other transportation equipment by 16.8% YoY. This is due to the normalisation of supply chains and the fulfilment of outstanding production orders.

## Construction output down despite rising infrastructure activity

Construction output fell 1.5% YoY in March, compared to an increase of 6.6% YoY in February. This is a far worse result than the consensus (+0.9%). The dismal performance is most likely due mainly to residential construction, although infrastructure work did not fare well either.

Construction of buildings fell by 10.5% YoY in March. This is a result of the still difficult situation in the housing market, primarily related to the sharp rise in interest rates. The number of housing units under construction has clearly fallen from last year's peaks, but still remains at historically high levels. Developers are most likely finishing projects already underway, but not starting new ones. With current demand, the apartments already on offer will cover demand for at least a year. The situation is unlikely to improve anytime soon, especially since some potential buyers may be waiting for details of the government support programme.

In the case of other categories, we are most likely to see the effects of the completion of public investments in the last accounting year of the "old" EU budget. Production of civil engineering construction increased by 9.5% YoY, but specialised works fell by 2.7% YoY. Public investment is likely to offset poor private outlays this year.

## Strong decline in PPI inflation

Producer price index (PPI) growth slowed to 10.1% YoY in March (ING: 10.8%; consensus: 11.2%) from 18.2% YoY in February (revised). The main reason for the strong year-on-year decline in PPI inflation is the very high reference base. In March 2022, producer prices rose 6.6% MoM, with prices in the division that includes refined petroleum products rising more than 30% MoM. Compared to February, producer prices declined by 0.8% in March 2023. This was the fifth consecutive month of monthly price declines in manufacturing. Prices in the energy and power generation section also fell markedly (-3.4% MoM).

The next few months will bring a continuation of PPI disinflation, and producer prices should rise at a single-digit pace as early as April. PPI inflation has risen noticeably more strongly than CPI, and

the same will be true in the reversal phase, i.e., the decline in producer inflation will be considerably more dynamic than in consumer prices.

## Monetary policy outlook

Despite the strong deceleration of the economy and the disinflation trend that has begun, we do not share market expectations for interest rate cuts before the end of this year. The trajectory of core inflation points to strong persistence in price increases, which will require interest rates to remain at their current high levels for an extended period of time. It is noteworthy that in recent weeks the National Bank of Poland has changed its rhetoric and retreated from earlier declarations of readiness to ease monetary policy before the end of 2023, which would have been premature. In our view, the first NBP rate cuts will take place at the end of the third quarter next year.

### Author

#### Piotr Poplawski

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@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 <http://www.ing.com>.