Poland: Further declines in industrial activity and PPI

Industrial production fell by 3.2% in May for the fourth consecutive month. Producer price growth slowed to 3.1% year-on-year from 6.2% YoY a month earlier. Ongoing disinflation may allow for symbolic policy easing by the National Bank of Poland this autumn

The drop in industrial production of 3.2%YoY came close to expectations (consensus: -3.0% YoY), following a 6.0% YoY decline in April (revised). This was the fourth consecutive month of year-on-year production decline. Adjusted for seasonal factors, production fell by 1.0% month-on-month, contracting for the third consecutive month. Manufacturing output fell by 2.7% YoY. We also saw declines in mining (11.2% YoY), power generation (6.5% YoY), as well as water supply and waste management (2.4% YoY).

Among the manufacturing divisions, the deepest year-on-year declines were seen in the production of wood products (22.5%) and chemicals (20.7%). By contrast, the largest increases were seen in the repair, maintenance and installation of machinery and equipment (36.2%), the manufacture of electrical equipment – including automotive batteries – (14.5%) and the manufacture of vehicles (11.7%).

The slightly slower-than-April year-on-year decline in industrial production was due to a more favourable calendar pattern, among other factors. May's manufacturing PMI report also suggested a slight improvement in new orders and current production, but a continued decline in seasonally adjusted month-on-month production remains concerning. We expect that the year-on-year decline in production will continue over the coming months. A positive sign is the increase in the production of capital goods (9.1% YoY), suggesting continued investment growth.

Producer price growth (PPI) slowed in April to 3.1% YoY (ING: 4.7%; consensus: 4.6%) from 6.2% YoY a month earlier (revised data). Compared to April, prices declined in all sections except water supply and waste management. This is the fourth consecutive month that the PPI index declined in month-on-month terms, and prices in manufacturing have been falling since November. On a year-on-year basis, declines in processing prices (1.7%) are being supported by a significant discount in the coke and refined petroleum products manufacturing division (30.5%). Prices in mining (15.5%) and energy production (37.0%) are still markedly higher than a year ago.

Producer prices remain on a clear disinflationary path, and the Monetary Policy Council expects CPI inflation to fall further as well. Recent statements by National Bank of Poland President Adam Glapinski indicate that the drop in CPI inflation to single-digit levels in September, which we expect, could result in a rate cut this autumn. This will not yet be the start of a full easing cycle, which we expect only in the fourth quarter of 2024. We see a number of inflation risks in the medium term, highlighted by central bankers in core markets maintaining a restrictive monetary policy stance.

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