

## Poland: Industrial production continues to rebound, though less than expected

Industrial production in August increased by 1.5% year on year. The growth was below our forecast (3.0% YoY) and below the market consensus (2.8% YoY). However, it was faster than in July (1.1% YoY)



Wind power plant factory, Szczecin, Poland

Seasonally adjusted industrial production increased by 1.8% YoY and 0.6% month on month, while in July by 0.2% YoY and 6.2% MoM respectively. The seasonally adjusted month-over-month growth shows that production fully recovered from the lockdown trough, finished the V-shaped recovery and now is returning to normal growth.

The industrial production growth was driven by manufacturing, which grew by 2.0% YoY, better than a month ago (1.1% YoY) but slightly below expectations. Manufacturing accounts for almost 90% of the production in industry, and is the most export-oriented sector in Poland. Also, the weaker-than-expected overall production growth was due to a significant further drop in mining and quarrying – to minus 10.7% from minus 5.7% YoY in July. The electricity, gas, steam and air conditioning supply dropped by 2.7% YoY from a 1.8% YoY increase a month before. The manufacture of food products continued to slow down for another month, as it grew by 1.8% YoY compared to 3.3% in July. This is in line with our view that the effect of the postponed demand from the quarantine period has been gradually fading away.

The sectoral breakdown shows that the production of durable consumer goods strongly rebounded (+12.7% YoY), but the production of investment goods declined 1.6% YoY. This reflects the high uncertainty in the economy. The new waves of the pandemic as well as anti-crisis fiscal stimulus may postpone the adjustment process to the second half of the year.

The production is stabilizing after the V-shaped recovery and August data were slightly below expectations, but still 3Q20 may be stronger than though before. The same message comes from Thursday's robust data from the labour market. In our opinion, real GDP in 3Q20 will be only about 2% lower than in the corresponding period last year, compared to the 8.2% YoY contraction recorded in 2Q. We pencil in deceleration in 4Q20 caused by the next outbreak of the pandemic, but definitely less painful than that experienced in 2Q20.

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