

Poland: Industry immune to Eurozone slowdown

Industrial output in November slightly outperformed expectations. Manufacturing remains immune to the slowdown in Germany, but overall GDP growth is moderating



Source: Shutterstock

Industrial production growth dropped from 3.5% to 1.4% year on year in November, but its slowdown was less negative than local economists' expectations (0.9%).

The negative difference in working days affected production growth – seasonally adjusted figures present acceleration from 3.7% to 5.4%YoY. The strongest contributions to growth came from manufacturers of other transportation vehicles (e.g. railways) and also outside manufacturing i.e. from the energy sector. The latter increased headline dynamics by 1 percentage point. Export sectors generally recorded decent performance, despite automotive contraction by 4.4%YoY.

November data suggests that industry performance in 4Q should be similar or even slightly better than in the previous quarter. Our forecasting models suggests this trend should continue.

Poland and other CEE states are so far immune to the German and eurozone slowdown. We found

four particular reasons for this phenomenon:

1. Solid domestic demand in CEE region due to historically low unemployment, strong wage growth and expansionary fiscal policy, and in the case of Hungary, monetary policy too.
2. Lower exposure of CEE exports to non-Eurozone and Asian markets than is the case in Germany.
3. Export structure relying on domestic demand in Eurozone – we expect there should be no visible impact of Eurozone and German slowdown for CEE trade, as long as Western Europe manufacturing problems doesn't spill over to their domestic economies.
4. Maintenance of CEE competitiveness compared to the Western economies, despite increasing labour cost.

Decent industrial production in November does not alter our GDP forecast for 4Q. We expect slowdown from 3.9% in 3Q19 to 3.7%YoY in 4Q19.

The GDP slowdown is mainly caused by weaker domestic demand in Poland i.e. construction production reflecting softening investments growth. Secondly, the growth of consumption is about 1pp slower than implied by the recent growth of disposable income. We see some kind of election overspending, households save more and spend less than expected, despite new social programs launched.

With the weaker performance of the economy in the second half of the year, we forecast 2019 GDP growth to decelerate from 5.1% to 4.2%YoY.

The moderation should continue in 2020 – so far we expect a drop of GDP growth to 3%YoY.

Author

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.