

## 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



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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.

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