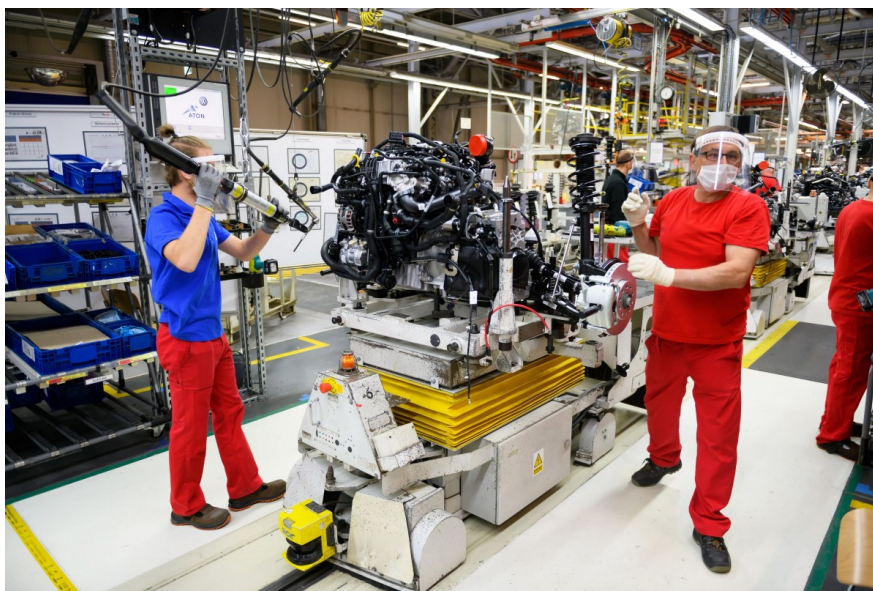


## Polish PMI hits record high as output and orders improve

Poland's PMI climbs to 59.4, a new historic high, from 57.2 the previous month and smashing the consensus figure of 57. Companies are reporting record orders and output growth. Strong backlog orders and price dynamics mean we don't expect any persistent decline in core CPI inflation



Manufacturing in Poland is booming

Higher output is primarily driven by domestic demand, but foreign orders expanded at a similar pace to what we saw in March, the highest levels for more than 7 years. Production backlogs continue to grow, reaching record highs. On the one hand, this reflects strong demand, but there are also supply chain disruptions; just think of the global shortage of semiconductors.

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*Manufacturing employment is expanding at the fastest rate since 2017*

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Manufacturing employment is expanding at the fastest rate since 2017. There is no longer any need to replace workers who were quarantining and this signals that actual capacity expansion as well as elevated wage growth. In fact, we were already seeing those wage increases at the height of the pandemic as there was such a strong demand for workers.

Companies also report high price pressures, both in terms of input prices as well as finished goods. This is consistent with elevated PPI, both domestically and, for example, in China. This reflects a myriad of factors, ranging from rising component prices, transport and labour. Manufacturers are passing the rising costs onto consumers given the strong demand. Apart from an expected recovery in services, this suggests elevated core inflation in the months to come.

Sub-indices assessing output, orders and employment are at the highest levels since 2014-17. Those assessing supply disruptions are even higher (indices assessing backlogs and the purchases of own supplies are the highest since 2003-04) and price components reached all-time high levels for the fourth month in a row.

The PMI surveys focus on large companies, usually part of European production chains, so the high result bodes well for activity in the euro area as a whole

Macro indicators confirm strong momentum in market services and trade. Retail sales continue to beat consensus. Industry remains affected by global supply disruptions. Hence cost pressures should remain a key factor behind elevated CPI in Poland.

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