

Poland: Production underperforms forecasts. PPI higher than expected

Disruptions in global supply chains are slowing production growth and driving costs up. Inflationary pressure in Poland is rising



+9.8%

Industrial production in July, YoY

Consensus: +11%

Lower than expected

July industrial production rose by 9.8% YoY compared to +18.4% in June and the median of market forecasts at +11%. Key factors behind the result include calendar effects and a growing base.

The growth rate in manufacturing remained relatively high (9.7% YoY), although lower than a month ago (19.4%). This is important as manufacturing is the engine of growth for Polish exports. The production of computers increased by 25.9% and electrical equipment by 26.4%. On the other hand, car production fell (by 4.7% after a 17.4% increase in June). Some factories had to suspend

production in July due to a lack of components (mainly chips). Furniture production was also lower (down 2.4% after a 13% increase in June).

After seasonal adjustment the growth in production was just 0.7% MoM, relatively low when taking into account the already weak 0.2% increase in June.

Industrial production (% MoM, seasonally adjusted)



Source: CSO

After the economy opened up, part of consumer demand shifted from goods to services, especially those related to tourism and recreation. This may weigh somewhat on industry but on the other hand should allow market services to rebound. GDP growth is likely to remain solid, in our view close to 5.5% on average in 2021, although its composition will change. In addition, the manufacturing companies in surveys point to persistent problems in logistics chains as an important factor constraining production growth and generating backlogs. The high incidence of Covid-19 in Southeast Asia suggests that supply disruptions may persist for several more quarters.

It is supply-side barriers, not demand, that now appear to be the biggest problem for further expansion of industry in Poland. Companies are able to pass on rising costs to finished goods prices. In July PPI inflation accelerated from 7.2% to as much as 8.2% YoY. The median market forecast was 7.6%. This suggests that CPI inflation will also remain elevated in the coming quarters.