

Poland: Solid industrial production as supply chain woes ease

Industrial output growth remained close to double-digit levels in September on the back of robust manufacturing in export-oriented industries and was rather solid in the third quarter, raising hopes of more than 3% year-on-year growth in GDP. We see no risk of a technical recession in the final quarter



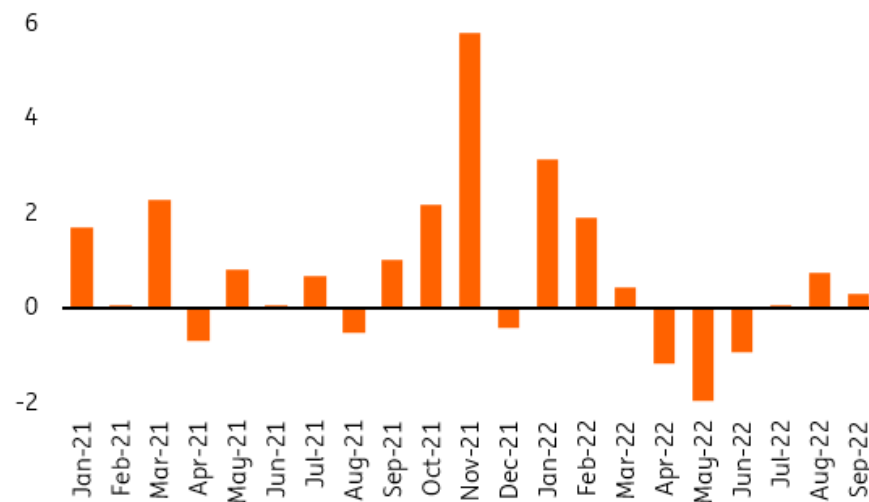
Manufacturing benefited from external demand

Industrial production rose by 9.8% year-on-year in September (consensus: 8.8% YoY; ING: 8.3% YoY), following an increase of 10.9% YoY in August. Poland's industrial sector performance is clearly better than the dismal picture painted by very low manufacturing PMI readings in recent months. Seasonally-adjusted data suggest that the industrial sector is improving again after contracting in the second quarter. In September, output was particularly buoyant in export industries, which benefited from the recovery of European manufacturing. The apparent easing of supply chain problems supported Poland's main trading partners and local production. The improved availability of inputs supported growth in industries such as automotive (+46.5% YoY from a low reference base), other transport equipment (+19.2% YoY), machinery and equipment (+26.1% YoY) and electrical equipment (+17.9% YoY). The manufacture of capital goods expanded

rapidly (+29.1% YoY).

Industrial output improved again in the third quarter after a softer second quarter

Industrial production, % MoM (SA).



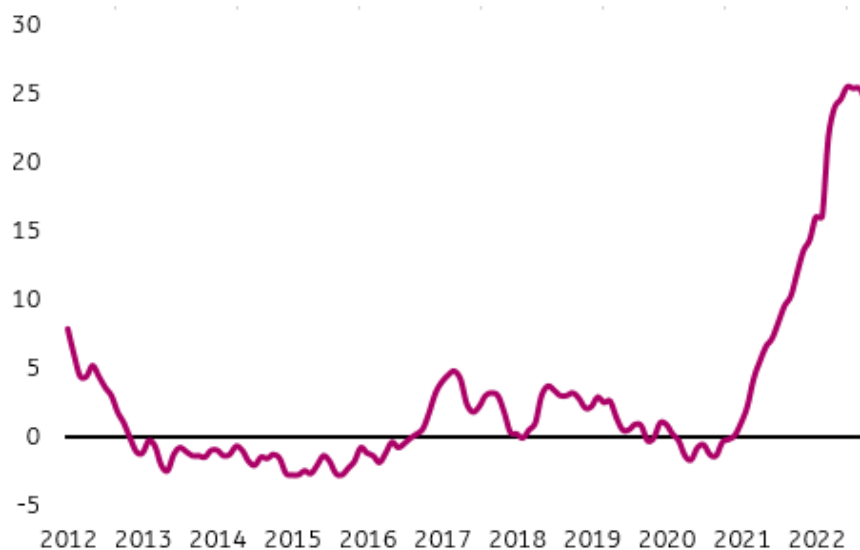
Source: GUS.

PPI inflation moderated

Producer price growth moderated slightly in September, although remains very high. PPI inflation was 24.6% YoY last month (consensus: 25.6% YoY; ING: 25.4% YoY) and is starting to stabilise at high levels around 25% YoY. The fall in wholesale petrol prices and slightly lower upward pressure on manufacturing prices in September was accompanied by a fall in energy prices (-3.7% MoM). Although the local peak in PPI inflation is probably behind us, we expect another wave of second-round effects. We see evidence of companies passing rising energy prices to output prices and retail prices, so clearly second-round effects are in place here.

PPI inflation has probably peaked

PPI, % YoY



Source: GUS.

Chances of solid third-quarter GDP growth – but outlook remains rather grim

The performance of industry in the third quarter should be assessed as solid and raises the prospect of a final quarter GDP growth rate of well above 3% YoY. Following the latest revision of the annual national accounts, the StatOffice has yet to publish updated quarterly data. While there was no significant change in the quarterly growth profile, the third quarter saw a rebound in seasonally-adjusted GDP vs. the previous quarter, after a deep quarterly decline between April and June.

European and German industry performed better than expected during the last quarter, helped by improvements in supply chains. This translated favourably into the output of Polish export industries. However, this does not change the fact that we are facing a gradual downturn and the coming quarters will be difficult for the domestic economy. Much will depend on weather conditions and the availability of energy commodities for the European industry. In addition, high inflation is undermining the real purchasing power of European and Polish consumers. Our forecast for 2022 is for GDP growth of around 4%, while there are a number of downside risks to the 1.5% growth forecast for 2023. We do not rule out a decline in GDP at the beginning of next year, on an annualised basis.

We see enough arguments for further tightening, possibly in November. But further tightening is highly uncertain and may be rather triggered by Polish zloty (PLN) weakness, or another CPI top in February 2023 when we see CPI at about 21% YoY.

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