

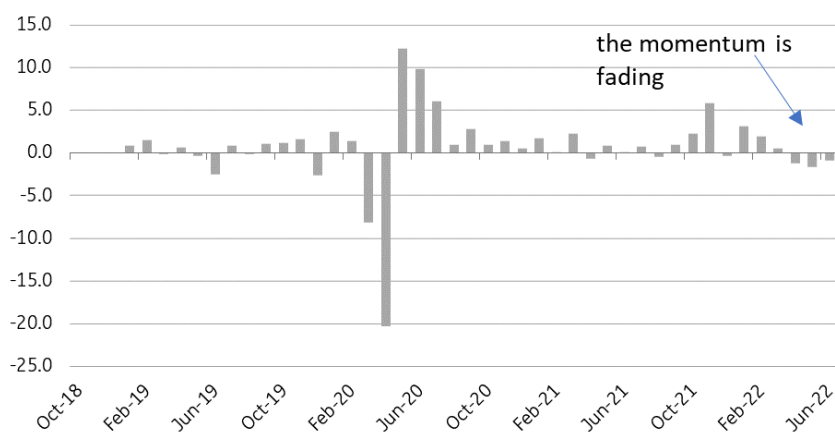
Poland: Industry slows and labour market softens

Production data signals a slowdown in the second half of 2022, but so far, the hard data has outperformed leading indicators. The softness in employment growth, in seasonally-adjusted terms, is consistent with fading activity, but here too, changes have been limited so far. Wage growth is running below inflation and this should continue



Coal power plant in Bełchatów, Poland

Industrial production, month-on-month, seasonally adjusted



Source: GUS

Industrial activity is slowly weakening, but pressure on producer prices remains high

In June, industrial production grew 10.4% year-on-year, a bit slower than expected (12-14% YoY) but still double-digit growth. The earlier drivers of economic growth such as a few sectors of heavy industry are slowing, and production of consumer durables is much worse. The decline in demand for consumer durables probably reflects (1) weaker foreign orders, where the jump in gas prices has hit purchasing power and consumer sentiment hard in our major trading partners, (2) possible lower demand from refugees from Ukraine, but also from domestic consumers. These trends were evident earlier in retail sales data.

A further deceleration in manufacturing is indicated by the strong slump in PMI orders. We are facing a technical recession in the second half of the year and its depth will be determined by a number of factors. The first few months after the outbreak of war in Ukraine were still favourable for domestic industry due to the high level of orders and production backlogs, as well as the high output of heavy industry. In the last three months, however, black clouds have begun to gather over the sector. We note a decline in production month-on-month in seasonally-adjusted terms (see graph).

Also, the PMI index has slipped deep below the neutral 50-point level, with a marked decline in new orders, including export orders. Uncertainty related to gas supplies to Germany via Nord Stream 1 could also have serious negative consequences for German industry and the Polish industry that supplies it. After a solid first half of 2022, the following months may bring a marked slowdown. Although leading indicators (including May's PMI) point to a deteriorating situation in Polish manufacturing, the deceleration of domestic industry has not been abrupt so far.

Full-year GDP growth will be 4.7% YoY in our view, but quarterly data will show a significant deceleration: from 8.5% YoY in 1Q22 to below 1% YoY in 4Q22.

PPI inflation still high

PPI inflation rose to 25.6% YoY in June (ING and consensus: 24.9% YoY) from 24.7% YoY in May (data revised). Despite the continued rise in producer price inflation, we think we are already close

to the local peak. Such assessments are warranted by the situation in the commodities market, where fears of recession have led to a repricing of many products. On a monthly basis, mining prices fell for the second consecutive month, helped by a correction in copper prices on global markets. Compared to the previous month, price growth in manufacturing (1.5% MoM) was the lowest since February. Earlier increases in the PPI will continue to feed into consumer prices with a lag in the coming months. However, weakening demand may lead to margin compression, somewhat mitigating the strength of secondary effects, i.e. the transmission of increases in corporate costs to retail prices.

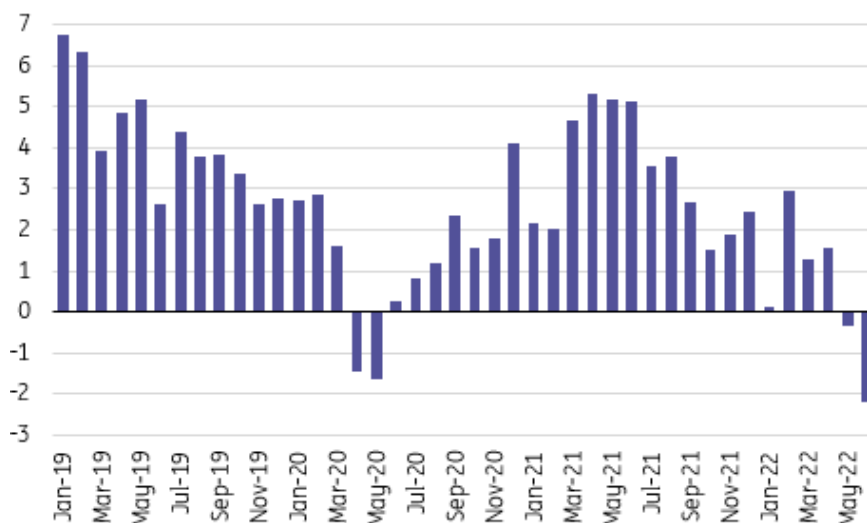
Wage growth short of price growth; employment reading soft

June's labour market data shows some signs of gradually cooling amid a weakening economy. Average wages and salaries in the enterprise sector rose 13.0% YoY in June (ING: 13.8% YoY; consensus: 13.3% YoY), following a 13.5% YoY increase in May. Average employment increased by 2.2% YoY (ING: 2.3% YoY; consensus: 2.2% YoY), up by just 5,000 compared to May.

For the second month in a row, enterprise wage growth was lower than retail price growth (real wage decline). Despite high wage demands, this trend is likely to continue in the coming months. Faced with a decline in new orders and slower growth in demand, employers may be less inclined to raise wages than in the first half of the year. A large increase in the minimum wage from January 2023 is also coming. Hence, nominal wage dynamics will continue to run below inflation in the second half of this year.

Employment data shows the first sign of softening on a seasonally-adjusted basis. Lower employment growth in the business sector may be related to the expected deceleration of the economy but also to the growing employment of refugees from Ukraine on the basis of simplified procedures. In particular, during the summer, workers from Ukraine who are not included in official statistics may take up seasonal jobs in agriculture.

Real wages and salaries in enterprise sector, %YoY



Source: GUS, ING.

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