

## Poland: War lifts prices but impact on the economy is moderate so far

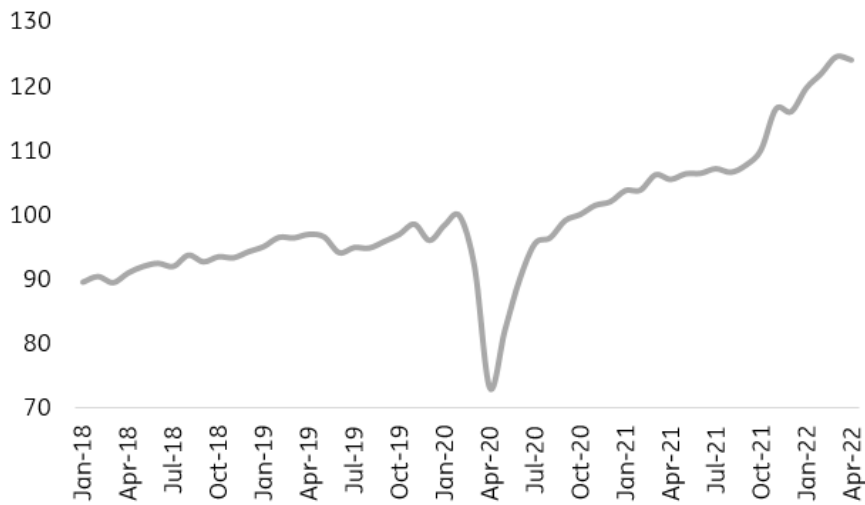
April data clearly show that the war in Ukraine has had a strong impact on prices but limited repercussions on GDP so far. The PPI shock continued, wages soared, while industrial output was decent. Despite the expected slowdown in 2H22, annual GDP is around 4.5% amid a high starting point. Inflation seems to be slipping out of control



Poland's economy should show weak growth in the coming quarters

Industrial output increased by 13.0% year-on-year in April (ING: 15.5%YoY; consensus: 15.4%YoY) after growth of 17.3%YoY in March. Seasonally-adjusted output moderated by 0.4% month-on-month, in what may be a sign of the first hits from the war in Ukraine and the reported decline in new orders. However, the scale of the impact is moderate so far. Robust growth was reported in heavy industries: mining, manufacture of coke and refined petroleum products, as well as metals and metal products.

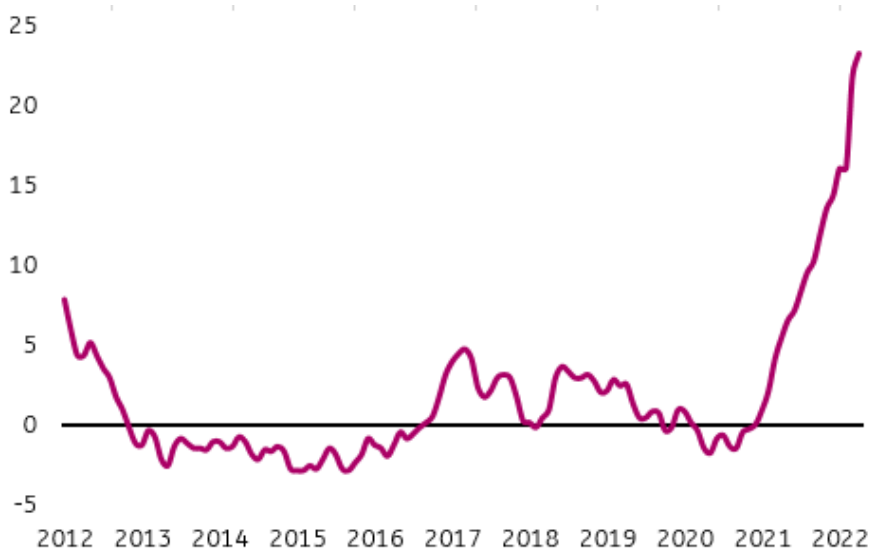
## Industrial output, February 2020=100 (S.A.)



Source: GUS.

Producers' prices (PPI) jumped up by as much as 23.3%YoY last month (ING: 18.5%YoY; consensus: 20.4%YoY) after a 21.9%YoY increase in March (data revised upwards). The commodity shock (particularly energy sources) is still visible in the data. Prices in electricity, gas steam and air conditioning supply rose by 44.0%YoY, while prices in mining and quarrying were 29.3% higher than in April last year. In the case of manufacturing, the highest price increase was reported in the manufacture of coke and refined petroleum products (90.3%YoY). High price growth was also seen in the manufacture of metals (37.9%YoY). Price growth in food processing also gained momentum (23.9%YoY). The upward trend in PPI points to a continuation of consumer inflation growth in the coming months and the strong second-round effects we have pointed out for some time.

## PPI, %YoY

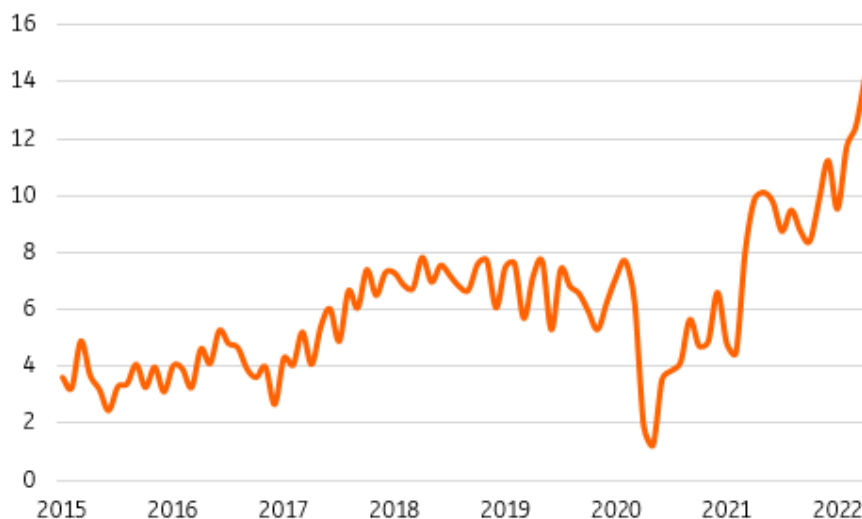


Source: GUS.

Average wage and salary in the enterprise sector rose by a hefty 14.1%YoY in April (ING: 12.6%YoY;

consensus: 12.6%YoY), while average paid employment increased by 2.8%YoY (ING and consensus at 2.7%YoY). Wage growth indicates very strong wage pressure and confirms a wage-price spiral. At the same time, a monthly increase of more than 10K employment in monthly terms is a solid result for April.

## Average wage and salary in enterprises, %YoY



Source: GUS.

The Polish labour market remains tight and many sectors have reported labour shortages. Mounting labour costs are part of a wider range of intensifying second-round effects. Previous increases in the price of energy, materials, transport and labour generate upward pressure on costs that are passed onto the retail prices of goods and services. In the environment of a consumption boom, additionally boosted by fiscal expansion (tax cuts, 14th pension etc.), higher prices do not trim demand. Sharp increases in prices of necessities (food, fuel, housing) translate into mounting wage demands. The labour market remains reliant on foreign workers (immigrants).

## Bottom line

Today's dataset clearly highlights that the price shock caused by the war accelerates than subsides, which is accompanied by more evidence of a wage-price spiral (stronger increase in wages and sound employment). The risk of inflation slipping out of control rises. Hence the data increases the odds of a 100bps hike in June or a series of 75bps hikes in the coming months. We will follow Monetary Policy Council (MPC) comments, looking for signals on whether the Council is focusing on high PPI and wages, or slowing production. We fear that the GDP slowdown in the coming quarters won't be sufficient to curb CPI given the tight labour market and fiscal expansion.

We expect a GDP slowdown in 2H22, but the starting point from 1Q22 is so high that the annual GDP growth should average around 4.5% this year. We still see CPI topping around 15-20% YoY.

Persistently high CPI is currently a much more serious threat than the GDP slowdown. An inconsistent policy mix (loose fiscal policy, tight monetary policy) only amplifies that risk. The MPC should hike rates to no less than 7.5-8.5%.

## Author

### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

### Adam Antoniak

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).