Supply chains disruptions weaken Polish manufacturing

The worse-than-expected industrial production numbers in February are due to the nearly 10-point deterioration in metal production and the continuous drop in motor vehicle production. But the outlook for the sector remains positive and we expect manufacturing to remain the most important GDP growth driver this year

+2.7% YoY

Production in February

Consensus at +4.5%

Lower than expected

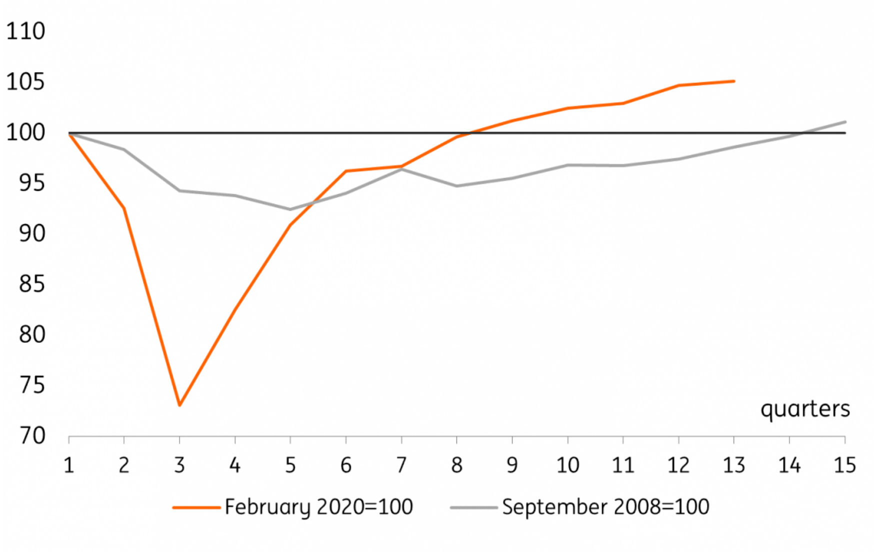
In February, industrial production grew by 2.7% year-on-year compared to 0.9% in January.

However, the result was short of our expectations and the market consensus at a 4.5% YoY increase. Seasonally adjusted output growth slowed down to only 0.4% MoM compared to 1.7% in

January. Nevertheless, production levels remain clearly above pre-pandemic levels as industry is still less affected by the pandemic than services.

The worse-than-expected industrial production numbers are due to the nearly 10-point deterioration in metal production compared to January and the continuing drop in motor vehicle production (by 3.2% YoY).

Pace of industrial production recovery after 2008 and 2020

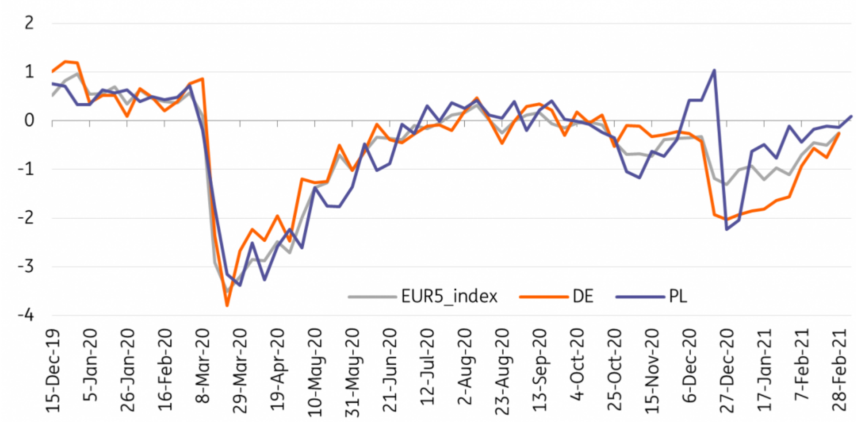


Source: CSO

The details show a 3.5% YoY drop in capital goods production. This could be worrying but is consistent with our forecast of a limited rebound in private investment this year. Production of durable consumer goods increased by 13.3% YoY and intermediate goods by 6.2% YoY due to a shift in consumer demand from unavailable services.

A slight improvement in the industrial situation in Poland, but also in the EU in February, was indicated by soft indicators. This was also confirmed by short-term economic activity indices based on population mobility and daily indicators for industry.

ING WAI, indices of current economic activity (normalised)



Source: ING

Despite weaker-than-expected manufacturing numbers in February, we believe the outlook for the sector remains positive for this year as the sector's high geographic and product diversification relative to the region, and the expected rebound in global GDP, should help.

> *Manufacturing in Poland should remain the most important driver of GDP growth this year*

Potential risks include the timeline of the European recovery and supply chain disruptions, which may postpone the recovery until late 2Q21 or 2H21. Nonetheless, manufacturing in Poland should remain the most important driver of GDP growth this year, as was the case in 2020.

A bigger concern may be delays in deliveries and problems with the availability of raw materials reported. Companies have managed to cope with this so far, but this generates cost pressure, which can push up the prices of finished goods. Disturbances in supply chains are visible not only in Poland but also in other economies, including the USA.

As consumption demand is expected to rebound, companies are likely to pass on the rising costs to consumers, which means that the expected recovery will be accompanied by higher inflation, which we have been assuming in our forecasts for some time now.