

Poland's industrial output down in August amid weak external demand

Industrial production in Poland remains under pressure from weak demand from abroad. Robust domestic consumption is insufficient to sustain industrial growth given external demand. The German economy is likely to remain stagnant, but a rebound in domestic fixed investment should provide a boost next year



Poland's manufacturing is underperforming as foreign demand remains weak

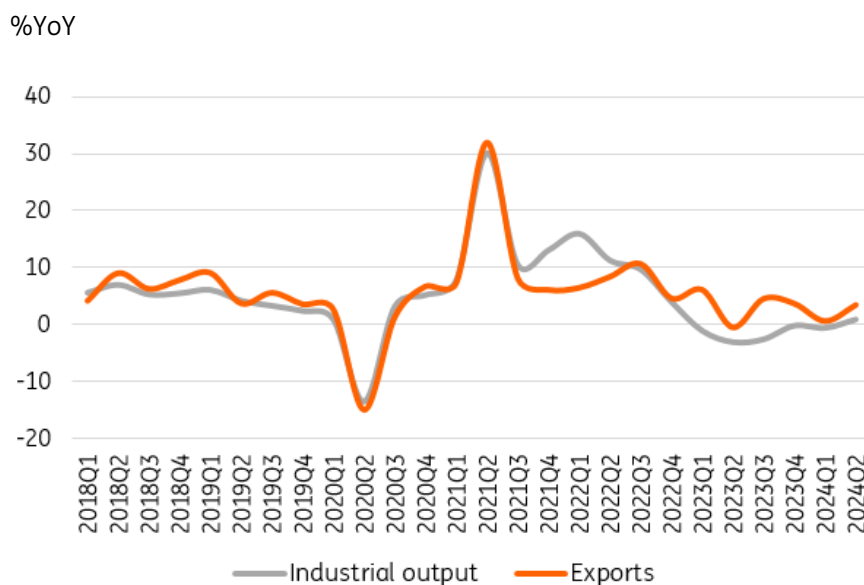
Production down again in August

Industrial production fell by 1.5% year-on-year in August, following an increase of 5.2% YoY in July (revised). August had one less working day than in 2023, and July had two more. Manufacturing output fell by 1.7% YoY, following an increase of 5.4% YoY a month earlier. A sharp decline in output was recorded in mining (-7.8% YoY, following an increase of 2.5% YoY in July). Seasonally adjusted data points to a 0.8% month-on-month decline in production. Output fell month-on-month in July as well.

Falling output occurred in the production of capital goods (-4.2% YoY), intermediate goods (-3.8% YoY) and durable consumer goods (-0.3% YoY). Increases were reported in the production of non-durable consumer goods (+2.3% YoY) and energy-related goods (+0.2% YoY). The deepest declines in production took place in sectors with a high share of export sales: the manufacture of electrical

equipment (-21.4% YoY) and the repair, maintenance and installation of machinery and equipment (-9.8% YoY). Time increases took place in the manufacture of computers, electronic and optical products (+13.7% YoY) and waste management and recycling (+9.4% YoY).

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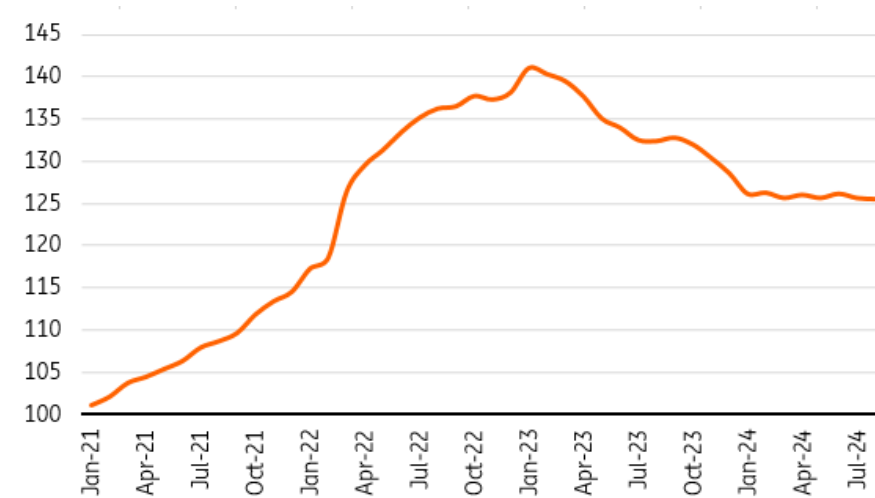
Source: GUS.

PPI deflation continues

Producer prices (PPI) fell by 5.1% YoY in August, i.e. at the same rate as in July (revised from -4.8% YoY). Compared to July, the PPI index decreased by 0.1%. Producer price levels have remained relatively stable in recent months and deflation in annual terms is driven by the high reference base of last year.

Producer prices have been relatively stable in recent months

PPI, %YoY



Source: GUS.

Weak external demand halts rebound in Polish manufacturing

The main problem for Polish manufacturing is the weakness in foreign demand. Both production and domestic export data indicate poor performance in industries linked to foreign markets. In particular, Polish manufacturers are suffering from the weakened German automotive sector and this could be a major structural challenge in the medium term. For many domestic producers, Germany was a gateway to other export markets. Weaknesses in Germany's economy may be a catalyst for more proactive direct acquisition of other export markets and the emergence of sales under domestic rather than foreign brands, but this process will take time.

We expect industrial production growth in the third quarter to be slightly higher than in the previous two quarters, but soft external demand is a major barrier to the pace of recovery in Polish manufacturing. Domestic consumption remains the main driver of the recovery and we are counting mainly on this factor in 2024. One of the catalysts for the improvement in fixed investment in the coming quarters may be works related to post-flood reconstruction. We estimate GDP growth in 2024 at 3% and expect it to accelerate to 3.5% in 2025, with stronger role of investment than this year.

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