

Poland's industrial production down in May; labour market softer too

Industrial production in May fell by 1.7% year-on-year amid the strong influence of calendar effects (two fewer working days and two long weekends). The May labour market report was also softer. We still believe the economic recovery will continue with 3% GDP growth this year

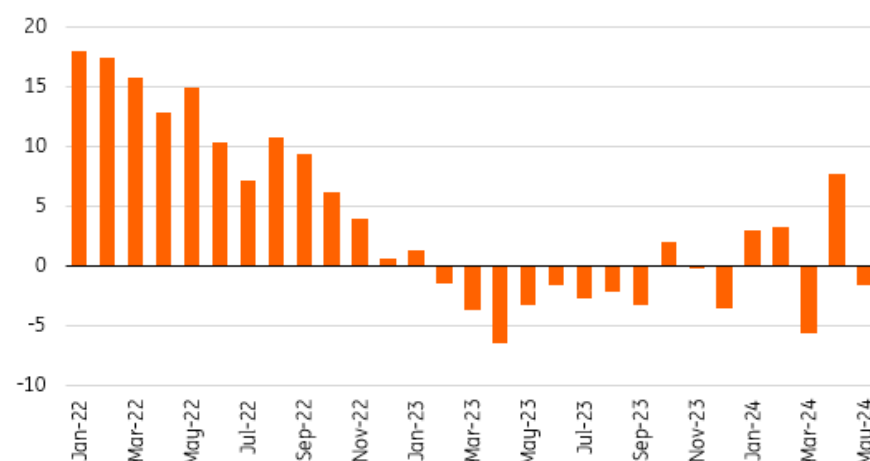


Industrial production down again in May after solid April

Industrial production fell by 1.7% YoY in May (ING: +1.0% YoY, consensus: +1.6% YoY), after rising by 7.8% YoY in April (revised downwards from 7.9%). According to the CSO's estimates, on a seasonally adjusted basis, industrial production fell by 2.1% month-on-month from April this year.

Production data has been characterised by exceptionally high volatility in recent months, not least because of statistical calendar effects. April this year had two more working days than April 2023, which bumped up the annual production dynamics. By contrast, May 2024 not only had two fewer working days YoY but also two long weekends at the beginning and end of the month, which, according to our estimates, weighed on the May data.

Industrial output YoY (%)



Source: Source: GUS

Declines in output were recorded in 19 of the 34 industry divisions, with the steepest declines seen in the manufacture of electrical equipment (-29.7% YoY), coal mining (-8.2%), metal products (-8.0%), metal production (-6.9%), beverages (-6.3%) and furniture (-5.0%). Increases were recorded in 14 divisions, the highest being in chemical products (7.1% YoY). Raw materials, the manufacture of computers and electronic equipment and other transport equipment also recovered. In the broader categories, the production of intermediate goods fell the most (-4.9% YoY), and to a lesser extent capital and consumer goods, while the production of energy-related goods increased (+6.4% YoY).

PPI deflation easing gradually

Producer price deflation is getting shallower. In May, the fall in the PPI producer price index slowed to 7.0% YoY (ING and consensus: -7.0%), following an 8.5% YoY fall in April (revised upwards from -8.6%). Compared to April, producer prices fell by 0.3% MoM, after rising at the same rate a month earlier. The MoM fall in total PPI was the result of higher prices in mining (+1.7% MoM), a 0.5% fall in manufacturing and increases of 0.9% in electricity and gas generation and supply and 0.3% in water supply and waste management.

The increase in mining prices was driven in particular by the rise in copper prices, which are generally a leading indicator ahead of changes in global industry. The main part of the adjustment in producer price levels is probably behind us. The next few months will bring a gradual reduction in annual deflation. By late 2024/early 2025, we should start to see an increase in PPI on an annual basis.

Softer labour market data

May data from the labour market also turned out softer than expected. Average wages and salaries in the corporate sector rose by 11.4% YoY in May (ING: 12.0%; consensus: 11.6%), following an increase of 11.3% YoY in April. According to the StatOffice note, the decline in average wages vs. April was due to, among other things, a smaller scale of additional payments and overtime pay, which may have been related to the two long weekends. Although wage growth remains at double-digit levels, it has slowed somewhat relative to 1Q24. In contrast, the decline in average

employment deepened in May to 0.5% YoY (versus expectations and a 0.4% YoY decline in April). Compared to the previous month, the number of jobs fell by 11,000.

Real wage growth YoY (%)



Source: Source: GUS

The labour market remains tight, with the unemployment rate remaining close to record lows. However, we are seeing signs of weakening, likely as a result of the 2023 slowdown, weak external demand and the strengthening of the Polish zloty. Sharp hikes in statutory minimum wages in recent years have undermined the competitiveness of some sectors of the economy. This is translating into layoffs and the relocation of production activities by companies competing with low labour costs. The limited supply of workers (shrinking working-age population) remains the main challenge for the labour market. We expect wage growth to remain at double-digit levels in the coming months of 2024, although it may still decelerate somewhat, while employment is set to decline slightly relative to 2023.

Consumption rebound still gives ground for 3% GDP growth

Against the backdrop of lower inflation, real wage growth remains robust (8.7% YoY in May and April). This should support the continuation of the recovery in consumption, which will be the main driver of economic growth in 2024. Despite the unfavourable external environment, in particular disappointing data from Germany for 2Q24, including early indicators such as Ifo, ZEW and PMI (preliminary PMI data for June will be released tomorrow), we remain moderately optimistic about Poland's continued economic recovery throughout 2024.

The highest growth in real household disposable income in two decades will translate into a marked revival in consumption. On the other hand, growth will be weighed down by weak external demand, a relatively strong zloty and a weakening of public investment associated with the gradual release of EU funds from the new EU budget and National Recovery Plan. We forecast GDP growth at 3% this year and to accelerate in 2025, supported by investment as well.

Author

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Leszek Kasek

Senior Economist, Poland

leszek.kasek@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.