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

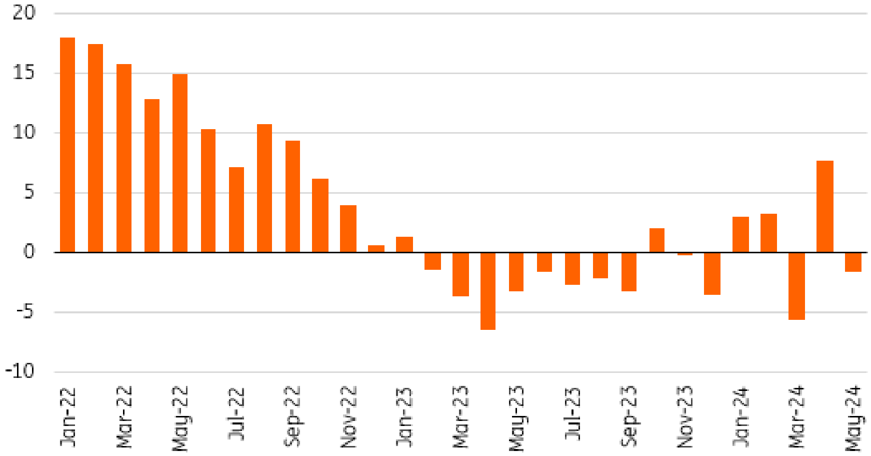
Industrial production in May fell by 1.7% year-on-year amid the strong influence of calendar effects (two fewer working days and two long weekends). The May labour market report was also softer. We still believe the economic recovery will continue with 3% GDP growth this year

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

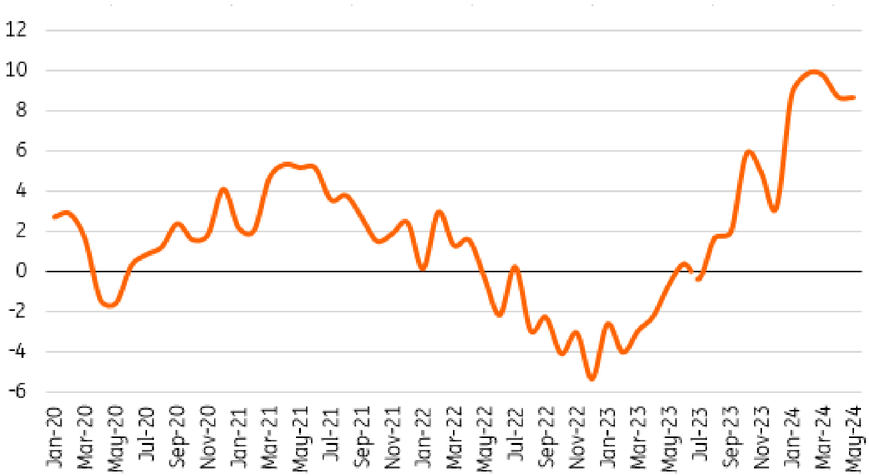
Producer price deflation is getting shallower. In May, the fall in the PPI producer price index slowed to 7.0% YoY (ING and consensus: -7.0%), following an 8.5% YoY fall in April (revised upwards from -8.6%). Compared to April, producer prices fell by 0.3% MoM, after rising at the same rate a month earlier. 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

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