

Polish data points to first quarter GDP contraction and sizable price pressures

Industrial production fell on a yearly basis for the first time since the outbreak of the pandemic and data shows a strong decline in employment last month, which goes against the seasonal trend. This fits with the scenario of a decline in GDP on an annualised basis in the first quarter



Industrial output negative in annual terms

Industrial production fell 1.2% year-on-year in February, following a 1.8% YoY increase in January (data revised from 2.6%), as calendar effects were no longer as favourable. Production growth in mining (+3.5% YoY) was accompanied by declines in other areas. In manufacturing, output shrank by 0.9% YoY with deep (more than 20% YoY) declines in metals and chemicals production. Production related to the automotive industry and electrical equipment (including batteries for electric vehicles) continued to grow, supported by better-functioning global value chains and a high backlog of orders in the automotive sector.

Despite signs of stabilisation in the manufacturing sector (slower decline in new orders reported by purchasing managers), production activity is stabilising at a relatively low level, and in the first quarter, industrial value added is likely to be at a lower level than in the same period last year.

Combined with the weakness in trade, this will translate into an annualised decline in GDP in the first quarter of this year. We currently estimate this at around 1%.

Employment decelerates, solid wage growth, but still below inflation

In February, employment in the business sector increased by just 0.8% YoY, weaker than a month ago (1.1%) and below the consensus (1.0%). On a sequential month-on-month basis, employment dropped by about 4,000 full-time equivalents, which goes against the seasonal growth trend and was a negative surprise.

Manufacturing employment continues to decelerate (22,000 jobs were lost from the peak in April 2022 to February), with furniture and textile manufacturing, among others, continuing to perform very poorly. Service industries, however, remain strong, especially information and communication, which hit new employment records. Industrial companies are most likely adjusting capacity to weakening demand, given weak household spending, among other factors, and the collapse in the housing market, which is spilling over to related industries.

The strong condition of services is likely in part the result of the further relocation of business to Poland from neighbouring countries in the East.

Keep in mind, however, that the data does not include refugees employed in Poland on the basis of special permits (i.e., not under a labour contract). According to surveys, they are finding employment in simple jobs, among others. In view of the very high government estimates of refugees taking up employment, this may suggest a substitution of domestic workers in some industrial sectors.

Average wages in the business sector, however, rose as much as 13.6% YoY, similar to January (13.5%) and better than expectations (12.0%). Wage pressures remain strong, both due to the tight labour market in some industries and the historically high minimum wage hike from January (by 15.9%). However, wage growth continues to lag behind inflation (18.4% YoY in February) uninterrupted since July 2022. As a result, we are seeing a loss of real household purchasing power. In addition to weak sentiment (e.g., planned purchases of durable goods), this had a decisive impact on the deceleration of consumer spending in the fourth quarter and most likely in the first as well.

Monetary policy conclusions

The overall picture that emerges from the data is unfavourable. The magnitude of the cost shock has been such that companies are still continuing to raise prices (this is shown by core CPI inflation and producer price inflation PPI for January-February). At the same time, the weakening of consumer demand so far (YoY consumption decline since 4Q22) has been insufficient to slow the inflationary process. Reports from businesses suggest a demand barrier to further price hikes is already emerging, but for now, this is not evident in the data.

At the same time, data from the labour market shows that companies are starting to adjust to the economic slowdown through employment (the drop in February is worrisome) because the pace of wages is de facto determined by the strong increase in the minimum wage and inflation expectations (the CSO wrote a commentary about "premiums due to inflation"). As a result, the pace of expected disinflation may be slow, supporting our concern about persistently high core

inflation.

Authors

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@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 <http://www.ing.com>.