

## Polish industrial activity weakens; price pressures remain high

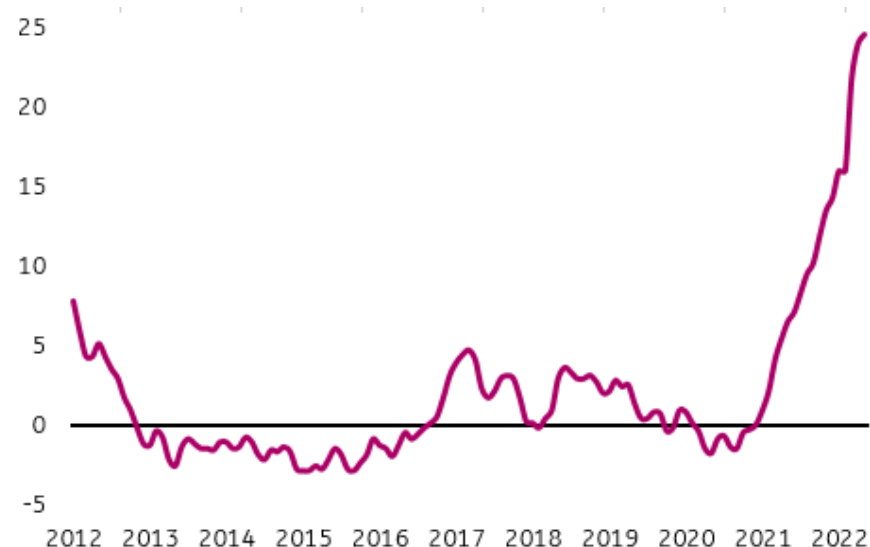
May data from industry has confirmed a gradual slowdown in activity amid still elevated price pressures. Despite headwinds, annual growth in industrial activity in 2Q22 will be only slightly lower than in 1Q22. A high PPI paves the way for a further upswing in core inflation. The central bank will continue its rate hike cycle in July with a 50-75bp move



Construction of the 'Warsaw Hub', Poland

Industrial production increased by 15.0% year-on-year in May (ING: 16.8% YoY; consensus: 15.2% YoY), following an increase of 13.0% YoY in April. The seasonally-adjusted index declined by 1.7% month-on-month. This was the second consecutive month of monthly declines in seasonally-adjusted output. Producer prices (PPI) increased by 24.7% YoY last month (ING: 25.0% YoY; consensus: 24.7% YoY), compared to a 24.1% YoY increase in April (data revised). Upward pressure from commodity prices continues, including prices of coke and refined oil products (93.4% YoY). Metal prices were also growing strongly (45.3% YoY). Food processing prices were rising as well (27.1% YoY).

## PPI, %YOY



Source: GUS.

Although leading indicators (e.g. May manufacturing PMI) point to a deterioration in Polish manufacturing, the slowdown in domestic industry is not abrupt. We estimate that in annual terms, industrial production growth in 2Q22 will be slightly lower than in 1Q22, which was very good. Symptoms of a marked economic slowdown are visible in the construction industry though (May data will be released tomorrow). At the same time, consumer demand remains strong, which should be confirmed by tomorrow's retail sales data for May. At the moment, this suggests GDP growth close to 6% YoY in 2Q22, although we are likely to see a decline in QoQ seasonally-adjusted terms. A substantial economic slowdown is expected in the second half of the year when the negative consequences of the war in Ukraine will become more evident in terms of weaker demand for Polish exports and disruptions to supply chains. Moreover, rising prices and interest rates will dampen consumer demand, which should, however, be sustained by refugee purchases. For the full year, we estimate GDP growth at 4.7%, mainly due to the carryover effect from 2021 and a high starting point in 1Q22.

The 24.7% YoY increase in producer prices confirms that upward pressure on prices remains high, and recent readings of core inflation measures confirm that companies have no problem passing on higher costs to the prices of their finished goods. This process is likely to continue in the coming months, resulting in a further increase in core inflation. To bring inflation under control, the National Bank of Poland will have to continue raising interest rates. The market has already priced in our scenario of the reference rate reaching 8.50%. The key factors in this context will be the upcoming inflation readings (by the end of 2022 we project price growth in the range of 15-20%) and the policy direction of the main developed markets' central banks. In light of the increasing scale of monetary policy tightening by the Federal Reserve (after the 75bp rate hike in June we expect a similar move in July) and the expected start of ECB rate hikes in July, discussions about the end of the rate hiking cycle in Poland or about the space for rate cuts in 2023 are, in our opinion, premature and may negatively impact the Polish zloty rate. At the moment, there are no signs of a reversal in the rising inflation trend, and we see significant upside risks to inflation from the surge in administered prices in early 2023.

## Author

**Adam Antoniuk**

Senior Economist

[adam.antoniuk@ing.pl](mailto:adam.antoniuk@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>.