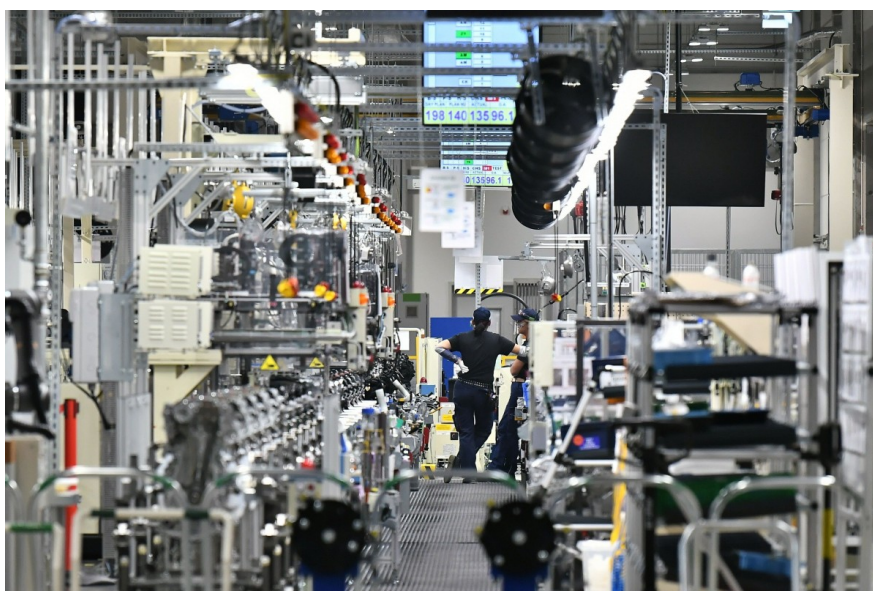


## Polish industry sees a weak start to the third quarter

July industrial output surprised to the downside in Poland amid declines in export-oriented industries linked to the German automotive sector (cars, electric vehicle batteries). Despite a softer start to the third quarter, we still see 3% GDP growth in 2024 as strong consumption compensates for weak exports and investment



Toyota Motor  
Manufacturing in  
Walbrzych, Poland

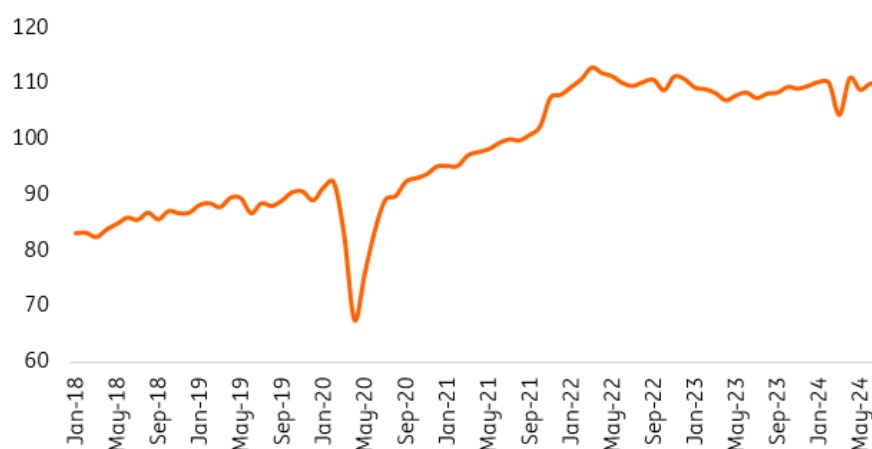
### Industrial output growth weak despite favourable calendar

Polish industrial production rose by 4.9% year-on-year in July (below consensus of 7.3%), after stagnating (0.0% YoY) in June, a downward revision from +0.3% YoY. Weakness in demand for Polish manufacturing products dominated the positive calendar effect (July 2024 had two more working days than July 2023).

Output in manufacturing increased by 5.0% YoY after -0.1% YoY in June, while mining output increased by 2.3% YoY (after -2.6% YoY in the previous month). Power generation increased by 1.6% YoY (following a 1.0% YoY read) and water supply, sewage and waste collection increased by 10.3% YoY (after 3.9% YoY a month earlier). Seasonally adjusted data points to a 0.2% month-on-month decline in the overall industrial production in July.

## Recovery in Poland's industry still slow

Industrial production, 2021=100 (SA)



Source: GUS.

## Weak demand from German automotive industry

The largest increases in production were recorded in the manufacture of wood products (+21.0% YoY), furniture (+14.5% YoY) and paper products (13.9% YoY). In contrast, the deepest declines were reported in the manufacture of electrical equipment, including batteries for electric cars (-18.7% YoY) and motor vehicles, trailers and semi-trailers (-9.1% YoY). The low production levels were observed in export-oriented automotive-related industries, which we link to the weakness of the German car market and the withdrawal of government subsidies for the purchase of electric cars in Germany since the beginning of this year.

## PPI deflation gradually moderating as prices stabilise

July brought a further reduction in producer price deflation (PPI). The PPI index fell by 4.8% YoY in July, following a decline of 5.8% YoY in June (after an upward revision from -6.1%). In manufacturing, prices fell by 3.9% YoY, in mining by 4.0% YoY, in power generation by 12.8% YoY, and prices related to water supply, sewage and waste collection rose by 3.8% YoY. Compared to June, producer price levels were unchanged, confirming the stabilisation of the PPI index in recent months.

## Weaker start to the third quarter, but GDP should reach 3% in 2024

The domestic manufacturing industry is struggling with an unfavourable external environment. Growth in the euro area is weak and the German automotive market, which is important for Polish manufacturers, is experiencing serious problems. At the same time, there are reports of a fading economy in China and an economic slowdown in the US. Under such conditions, the recovery of Polish industry is progressing slowly. In the second quarter of this year, industrial production increased by 0.9% YoY, following declines in the previous five quarters on an annual basis. However, the start of the third quarter is proving difficult for Polish industry.

The decline in the production of capital goods (-1.7% YoY) is worrying, while the production of

consumer durables increased solidly (+12.7% YoY). This confirms that GDP growth will be based on consumption, with visible weakness in exports and investment. Our 2024 economic growth forecast remains at 3% and the better-than-expected second quarter result (+3.2% YoY) mitigates the downside risks signalled earlier for Poland's full-year 2024 GDP growth forecast – even when taking the third quarter's weaker start into account.

## Author

### Adam Antoniak

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

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