Polish manufacturing struggles to overcome weakness

The economic recovery has continued in Poland, but manufacturing remains a weak spot amid poor external demand. The decline in producer prices has deepened, allowing for cautious optimism in tradable goods disinflation

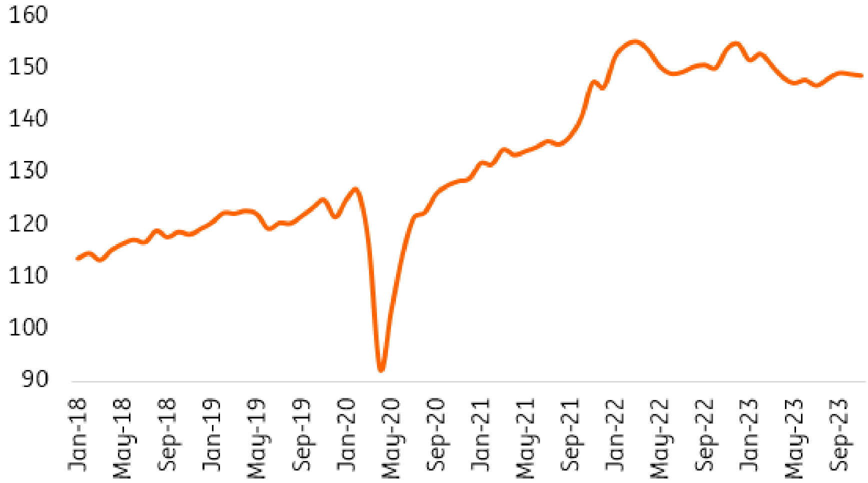
Industrial production still weak

Industrial output fell by 0.7% year-on-year in November, following an increase of 1.9% YoY in October (revised). Similar to the euro area, there are some signs of improvement in soft indicators but the hard data continues to disappoint.

Manufacturing fell by 2.0% YoY (+0.7% in October), mining output increased by 1.6% YoY (+5.7%) and power generation by 11.9% YoY (+14.6%). Seasonally adjusted data shows a 0.3% month-on-month decline in overall output. Production of capital goods (+7.0% YoY) and energy-related goods (+4.5% YoY) continues to rise, suggesting that investment in large companies is still expanding. In contrast, the production of intermediate goods is falling (-7.6% YoY), which may be related to the reduction of companies' inventories. The production of consumer durables also declined (-7.7% YoY), reversing a strong rise during the pandemic.

On an annual basis, strong increases were recorded in the production of other transport equipment (+25.7% YoY) and the production of motor vehicles, trailers and semi-trailers (+12.2% YoY). Energy production also grew strongly. In contrast, pronounced declines occurred in the manufacture of electrical equipment (-10.1% YoY) as well as rubber and plastic products (-5.9% YoY).

Industrial output, 2015=100 (SA)

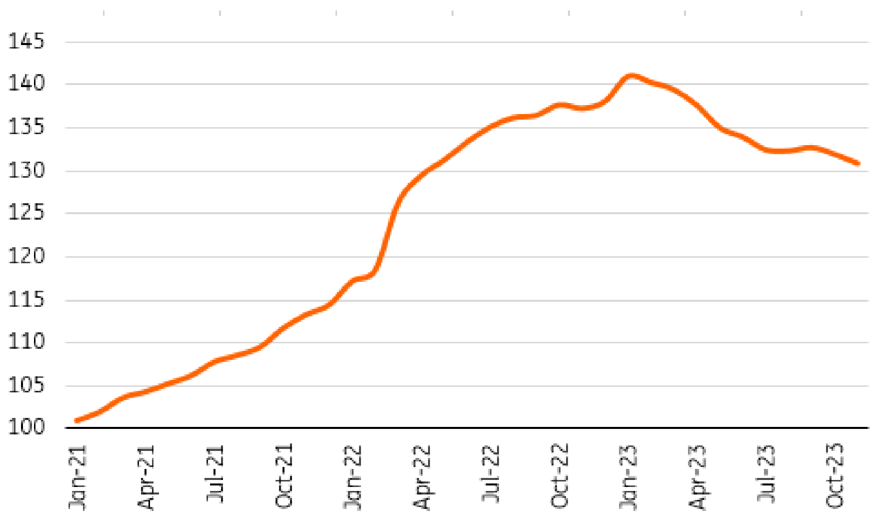


Source: GUS.

Decline in producer prices deepened

After signs of relative stabilisation towards the end of the third quarter, producer price levels resumed their decline in the fourth. The PPI index fell by 0.8% MoM in November, following a 0.6% MoM decline in October. As a result, annual deflation deepened to -4.7% YoY (ING: -3.7%; consensus: -3.9%) from -4.2% YoY in October (revised). The biggest contributor to the MoM fall in prices was energy generation and supply, where prices fell by 3.6% MoM. The coming months will be marked by further producer price deflation, which may favour a continuation of consumer price disinflation in the coming months.

PPI index, Dec 2021=100



Source: GUS, ING.

Bottom line

After a year-on-year increase in manufacturing in October, November brought a renewed decline. The strong rebound in the manufacturing PMI in November suggests that the coming months will see an improvement in manufacturing conditions, but so far the pace has been disappointing. We estimate that the broader economic recovery continued in 4Q23 and GDP growth should be close to 2% YoY. We expect further improvement in 2024, with GDP growth of around 3% mainly based on a marked rise in consumption.

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl