21 April 2021

Economic Comment

March output and wages beat expectations

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Polish industrial output beat expectations in March, rising 18.9% y/y vs 12.5% market median and our 13.5% forecast. This confirms the strong message from recent European PMIs. Low base effect was not the key factor. Wage growth surprised to the upside and rose to 8.0% y/y vs 4.5% y/y in February (highest since 2012). PPI inflation rose to 3.9% y/y in March from 2.2% mostly due to weaker PLN and rising commodity prices.

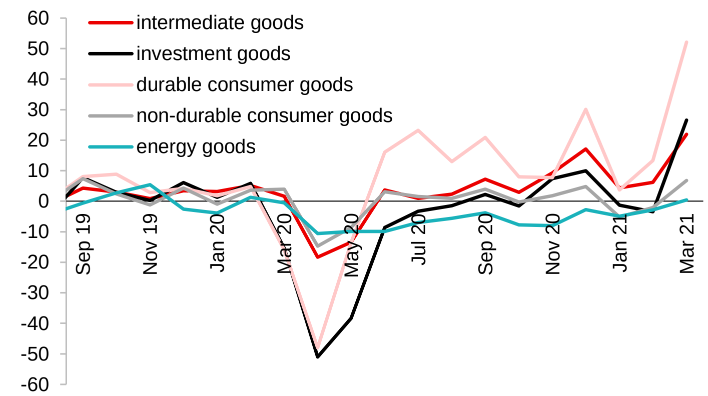
Industrial output surge

Polish industrial output beat expectations in March, rising 18.9% y/y vs 12.5% market median and our 13.5% forecast. The low base effect helped in reaching such a high outcome, but note that the output decline was still quite limited in March 2020 (slowdown to -2.5% y/y from +4.8%) so this was not the key factor.

The reading seems to confirm the strong message from recent European PMIs about quick rebound in activity, domestic and foreign demand. With such a surge in output it is hard to argue that supply shortages often mentioned in business surveys were a strongly limiting factor in March. On the other hand we know that one of the car factories had an outage in April due to lack of necessary input (which will weigh on the next reading of car industry output).

The industries that were recently performing very well saw an even greater boost in March, even correcting for base effects e.g. consumer durables up 52.1% y/y while the decline a year ago was just -15.9% y/y).

Output, main industrial groupings, %y/y



Source: GUS, Santander

The seasonally adjusted output growth was 2.3% m/m, the highest since September 2020 (readings above 2% m/m were generally quite rare in the recent years before the pandemic).

Car industry added 4.7pp more to overall y/y industrial output growth in March than it did in February, but this industry was one of the first to suffer from the pandemic in a year ago. Noticeable rise of growth contribution was also seen in food industry, rubber and plastics, IT equipment, electric appliances, machinery and equipment, furniture.

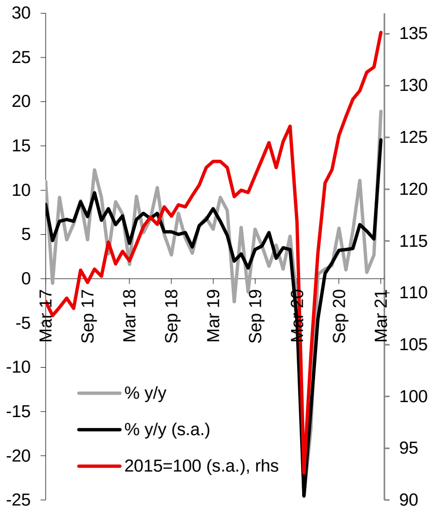
The March industrial output data suggest that 1Q GDP y/y decline will be smaller than 2%, but we need to also see how retail sales coped with further restrictions in the final month of 1Q.

Wage growth way above expectations

Employment in corporate sector fell by 1.3% y/y and by 0.1% m/m, in line with our expectations. Employment was dragged lower by tighter restrictions imposed on 20 March, including closure of hotels and shopping malls.

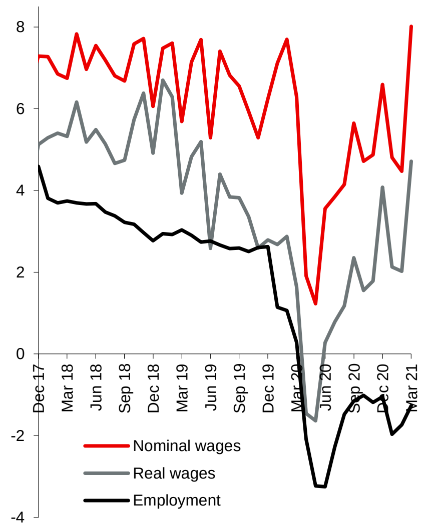
Wage growth, on the other hand, surprised to the upside and rose to 8.0% y/y vs 4.5% y/y in February (highest since 2012). This statistic was surely underpinned by low base

Industrial output



Source: GUS, Santander

Labour market statistics, % y/y



Source: GUS, Santander

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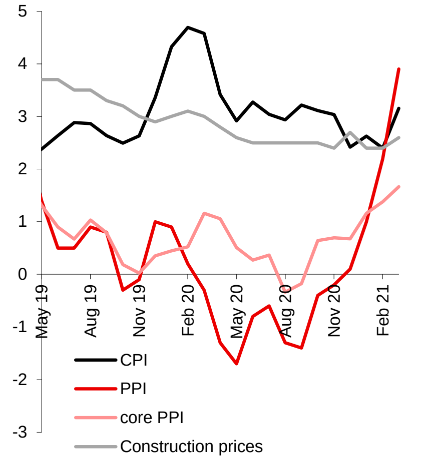
effect (first lockdown in March 2020) and positive working day effect (+1 y/y), but the numbers still clearly beat the consensus (we: 5.4%, market: 5.5%). We have to wait until 26 April to see detailed data, but it seems pretty obvious that households' incomes remain robust securing ground for a consumption rebound.

PPI inflation further up

PPI inflation rose to 3.9% y/y in March from 2.2% in February (highest since 2017) close to our call at 4.0% y/y. The increase was mostly triggered by weaker zloty, and higher prices of commodities, which was clearly reflected by rise in prices of coke and oil manufacturing by 8.8% m/m and in prices of metallic ores mining by 8.7% m/m. Nevertheless, price increases were rather broad-based, driving our estimate of core PPI up to 1.7% y/y in March from 1.4% y/y in February. We are expecting PPI inflation to go further up in the months to come, given the rally on commodities and rising problems with supply chains.

Inflation measures, % y/y



Source: GUS, Santander