CEE Economics

Poland

21 January 2022

Economic Comment

High economic activity at the end of the year

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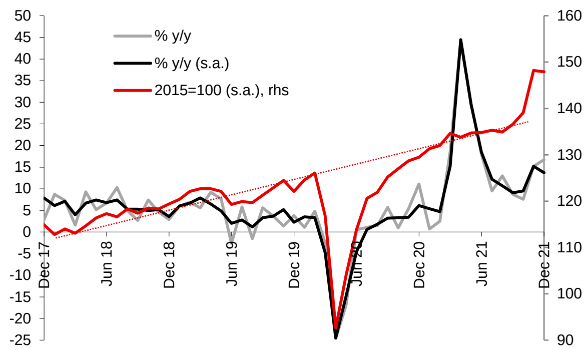
The set of December indicators is a mix of positive and negative surprises, but in our view points to high economic activity. Industrial and housing market data were very good, wages grew more than expected. Some weakness was seen in construction output, employment and business sentiment. PPI inflation continued to soar and approached 15% y/y.

We still do not know the retail sales data for December, but the production numbers overall confirm that the end of 2021 was strong in terms of economic activity and we would not be surprised to see GDP growth in 4Q21 somewhere near 7% y/y.

Industrial output is doing fine

Industrial production soared 16.7% y/y in December, vs. market consensus 13.1% and our forecast 14.9% y/y. Seasonally adjusted growth reached 13.7% y/y and -0.2% m/m. For the third month in a row the output was partly boosted by very strong results of energy sector (+54.2% y/y). But the manufacturing alone was also doing fine, rising almost 14% y/y. The sectors deserving special attention are: mining (acceleration to 32.3% y/y from 4.0% y/y, most likely due to increased demand for coal in the energy sector), car manufacturing (12.5% y/y, up from 1.4% y/y, possibly the supply issues have eased) and metal production (42.7% y/y vs. 26.7% y/y a month earlier).
The results confirm that despite seemingly unfavourable environment (surging costs, supply chain disruptions, labour shortages) Polish companies are still able to expand quickly and compete successfully on international markets (as many of the fastest growing industrial branches are export-oriented).

Industrial output

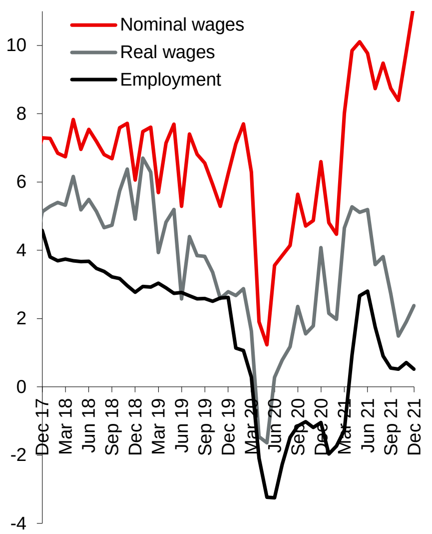


Source: GUS, Santander

Labour market: employment decline in manufacturing, wages beat forecasts

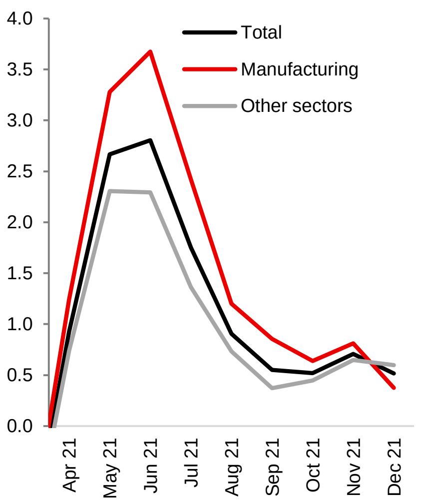
Employment rose by 0.5% y/y in December, below expectations (us and market: 0.7% y/y). Employment declined slightly (by 2k) in monthly terms and this is quite surprising, as seasonal pattern is usually bringing this measure higher at the year-end. Detailed data show that employment rose in most of the sectors, which is in line with our interpretation of labour market data, that labour demand is holding at a high level. The weaker overall change of employment was caused by a large fall, by almost 9k, in manufacturing. It is hard to tell what caused such decline, if it was a one-off effect connected with high absence due to sickness and quarantines or actual layoffs. It is possible that the Statistical Bulletin due 26 January will help answer this question.
Wages expanded by 11.2% y/y, beating the forecasts (us and market: 9.1% y/y) and vs. 9.8% y/y in November. This was the strongest wage growth in y/y terms since 2008. Wages jumped by 10.3% in monthly terms and this was the strongest December rise since 1999 (sic!). While we generally see stronger wage pressure and expect the next prints to remain really high, we think this may have been partly due to one-off factors, e.g. earlier payments aimed at avoiding tax changes introduced on 1 January. January reading will shed more light on this – weaker result in that month would support this claim.

Corporate wages and employment, % y/y



Source: GUS, Santander

Employment growth, % y/y



Source: GUS, Santander

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Construction output failed to meet expectations

Construction output disappointed, rising only 3.1% y/y (market consensus and our forecast at 9.1% y/y). The weakest production growth was recorded in construction of buildings (1.7% y/y), with civil engineering only a bit better (2.3% y/y) and specialized works at 6.6% y/y. It could have been partly related to the weather conditions in December (average temperature was 2°C lower than a year earlier), but also probably reflected stagnating public spending on infrastructure.

Housing market closes the year with record results

The final monthly data of 2021 showed great results of the housing market. In the whole year house completions rose by 6.3%, building permits were up 23.3%, house starts were up 23.9%. In nominal terms all three measures of housing activity were record high. In December alone house completions were up 14.4% y/y. Building permits dropped by 5.4% y/y and house starts rose by 1.5% y/y. The indicator of ongoing housing projects declined a bit, but remained historically very high.

High numbers of house starts and building permits in 2021 suggest that supply of flats and houses will be high in 2022. Demand may weaken due to strong rise of financing costs. We believe that the outcome will be a deceleration of price growth on the housing market.

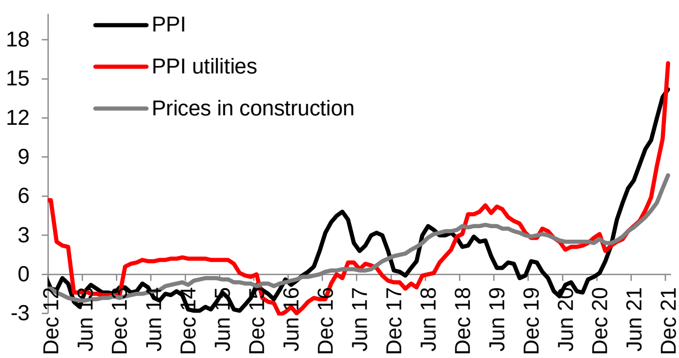
Business sentiment weakness at the start of the year

In January the sentiment among Polish business sectors was worse than in December 2021 with the exception of financial and insurance companies. Particularly large seasonally adjusted m/m declines were seen in industry, retail trade and transport. In case of industry there were only two months during the pandemic with a larger drop than the January's -4.8 pts, and no deterioration like this was seen at any point in time in the 10 years before the pandemic. The industry expectations index (unadjusted for seasonality) rose somewhat (1pt, while it usually rose 3-10pts in January) while the ones for retail trade and construction fell significantly to the lowest values in a year. More details will be available on Wednesday, 26 January.

PPI inflation severely beat forecasts once again

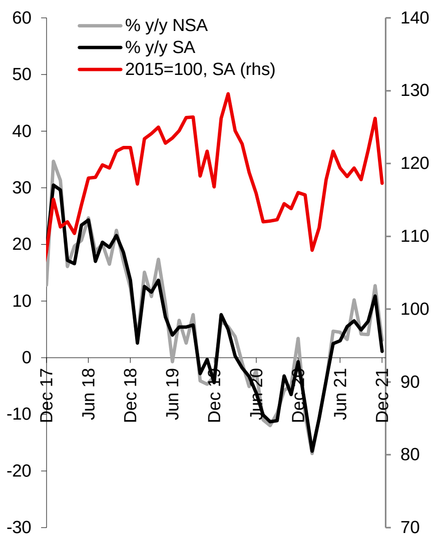
In December Polish PPI inflation surged to 14.2% y/y from the revised upwards November print of 13.6%, vs. market consensus at 13.5% and our 13.0% forecast. The most striking part was the pace at which utilities were hiking prices: +5.4% m/m (y/y growth up from 10.4% to 16.2% - the highest reading since 1996). We thought that the manufacturing PPI might already start to ease, but it may still be too early for this - the actual print was equal to the previous one, 13.7% y/y. Our core PPI measure (PPI ex categories directly linked to global commodities) rose to 11.7% y/y from 10.2% in November and 0.7% in December 2020. This means more pressure on consumer prices. Construction prices were also gaining upside momentum: annual growth rate rose in December to 7.6% from 6.6% in November. The m/m price growth was 1.0% in December and 1.1% in November (the last time these prices were growing so quickly m/m was in 2007).

Producer and construction prices, %y/y



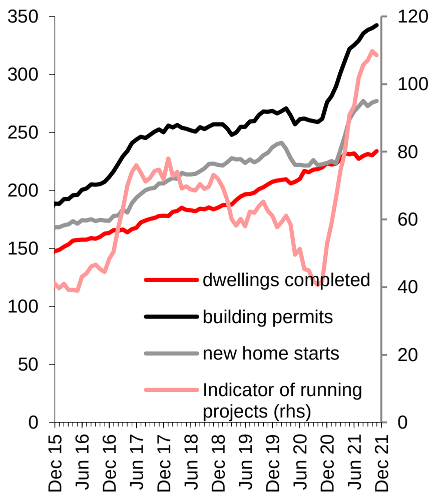
Source: GUS, Santander

Construction output, % y/y



Source: GUS, Santander

Housing market statistics, 12M moving sums (k)



Source: GUS, Santander

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