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Economic Comment

High economic momentum just before the war

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Industrial production rose strongly in February (17.6% y/y), employment went up (2.2% y/y) and wages accelerated (11.7% y/y), all confirming that just before the war in Ukraine started Polish economy was running at high gear. It was accompanied by very high cost pressure in industry, as PPI growth beat expectations once again (15.9% y/y in February).

It was a snapshot of economic situation from before the Russian invasion and it is likely that economic growth will slow while cost pressure may even intensify in the coming months. The labour market situation will be more complex, as the huge inflow of migrants (at this stage mainly women and children) may imply that some sectors of the economy (probably mainly services) will be flooded by new job candidates, while in others, relying mainly on male workforce (in the first place construction, transport, logistics, heavy industries), the shortage of staff may even deepen as thousands of male Ukrainians went back to their country to fight. From the central bank's point of view, the data support continuation of monetary tightening cycle.

Industrial production kept expanding in February

Industrial output increased 17.6% y/y in February, vs our forecast 17.6% and market consensus 16.8%. Seasonally adjusted output increased 2.1% m/m. Unsurprisingly to us, the data confirmed that just before the war in Ukraine started the momentum in Polish industry was very strong, supported by a revival in global demand and competitiveness of domestic production. The headline result was again boosted by production surge in energy sector (+37.7% y/y), the strength of which is difficult to explain and to some extent may be inflated because of the stat office's problems with separation of volume changes from price changes in the energy sector. But it does not change the conclusion that the situation in core businesses remained very strong – manufacturing output rose 15.8% y/y, at the fastest rate since early 2007 (barring the post-pandemic jump in 2Q21). What is important, this time such rapid growth was not the result of low base, as the revival in Polish industry started already in 2021. Seasonally adjusted output in February was already c. 1/4 above its pre-covid level.

The war in Ukraine is likely to disrupt this solid trend in the coming months and the shock will be probably unevenly distributed across branches. The most exposed will be industries relying on the supply of raw materials from the East (wood, metals, minerals), highly energy-consuming ones and those where male workforce may suffer from Ukrainians' outflow.

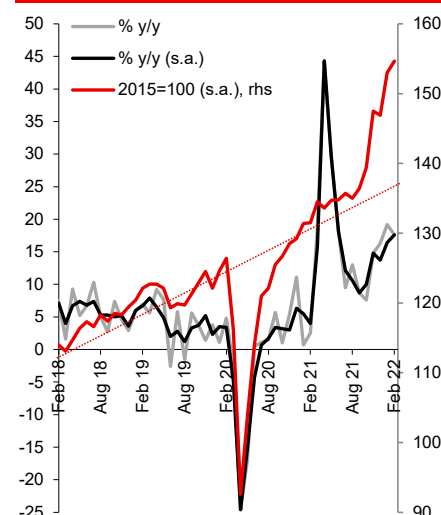
Job growth continues, wage pressure still high

In February the Polish labour market was still in very good shape, adding - despite very low unemployment - as many jobs (0.2% m/m) as in Februaries of the three pre-covid years (when the economy was expanding very rapidly). This came at a price of above-consensus wage growth: 11.7% y/y, the highest since mid-2008. This seems to confirm that the previous print came below 10% only because of advance payments to employees to avoid tax changes introduced in 2022. Some slowdown in wages may eventually appear this year once the economy gets cooled by the significant monetary tightening as well as the massive supply shock. Still, the labour market reaction usually comes with a lag so it will take time until wage growth decelerates significantly.

Producer prices keep growing rapidly

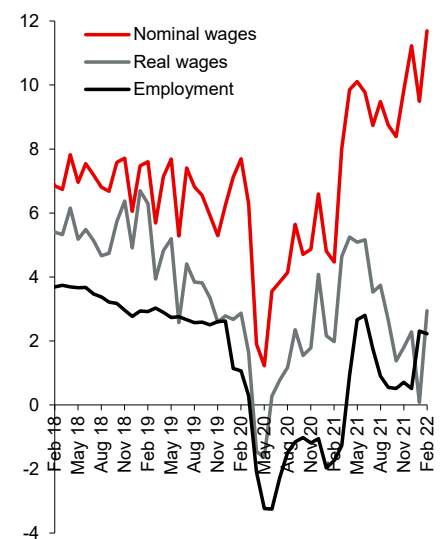
Polish PPI beat expectations yet again, for the 14th time in a row, coming at 15.9% y/y. Even our 15.5% forecast – the highest of all contributions to Bloomberg consensus was left far behind. What is more, the January print saw an upside revision by 1.3pp to 16.1% y/y. The stats office also showed construction output prices accelerating at more than 1% m/m, to 9.3% y/y (the fastest annual pace since 1998).

Industrial output



Source: GUS, Santander

Wage growth, % y/y



Source: GUS, Santander

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