

Economic Comment

Economy of high numbers

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April's production data showed some negative influence of the war in Ukraine and of the supply problems. On top of that, the result depended much less than in previous months on the controversial growth in energy production. Add to this the relatively strong employment growth, wage growth exceeding 14% y/y and PPI inflation jumping to over 23% y/y, and we have a picture of an economy that is not bending under the weight of tight monetary policy either in terms of real output or inflationary pressure. Moreover, in May companies were less worried about the impact of the war on the economy, but some sectors experienced a big increase in labour supply.

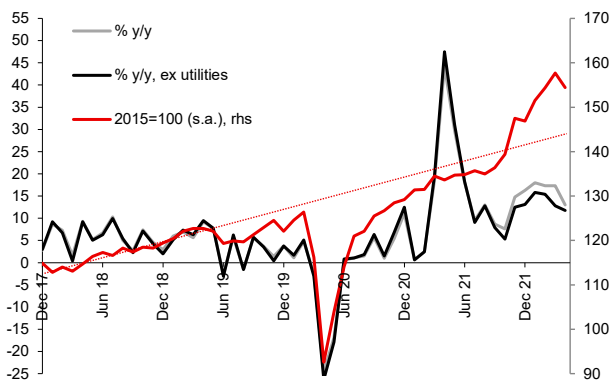
Polish industry showed healthy output growth at the start of 2Q

In April Polish industrial output recorded a solid 13% y/y growth, exceeding our 12.3% forecast but coming below 14.5% market consensus. In SA terms the y/y growth rate was 15.6%, down from 17.2% and the m/m growth was negative for the first time this year (-0.4%).

We would still call the result a positive and an encouraging one: we are surprised to see manufacturing output only dipping to 11.7% y/y from 12.4% despite the obstacles linked to the supply problems. Weak performance in April was seen mainly in the industries most exposed to material and commodity shortages: production of cars, computers, electrical appliances, furniture. On the other hand manufacture of food products, apparel and chemicals looked solid as did production of metals, machinery and equipment.

What is more, the problematic issue of utilities output which had been boosting the previous headline outcomes, in our view questioning their strength, is now much less important – the category added only 2.0pp to total output growth vs. 5.4pp previously.

Polish industrial output



Source: GUS, Santander

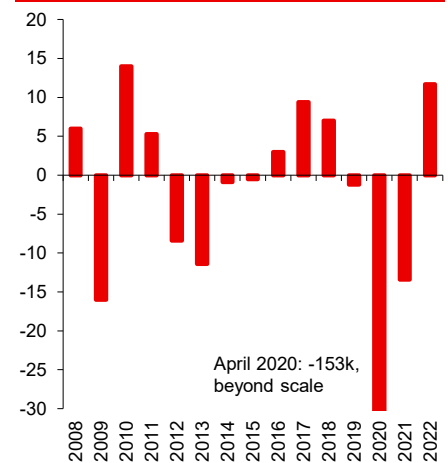
We think the production growth may still hold above 10% y/y on average in 2Q but in 2H22 there will be a more evident slowdown.

Employment in line with expectations, wages accelerate again

Employment growth accelerated to 2.8% y/y in April from 2.4% y/y in March, in line with our forecasts and the consensus. In monthly terms employment rose by 11.7k and this was actually quite a strong reading. Upward tendencies were rather broad-based, with most jobs added in manufacturing (3.4k) and trade (2.2k).

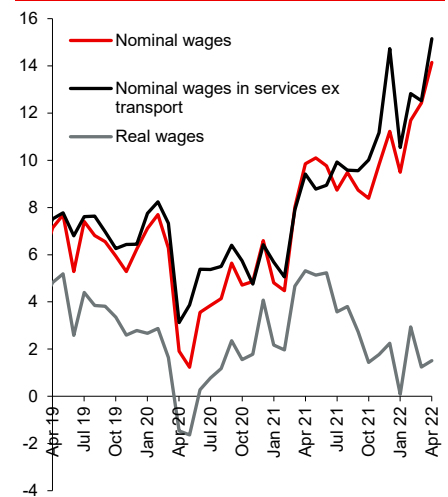
Wages rose by 14.1% y/y in April, beating our forecast at 12.8% y/y and consensus at 12.6% y/y. Acceleration of wage growth was visible in 11 out of 15 sectors reported by GUS. While we think that acceleration in transport to 24.3% y/y from 19.6% y/y was mostly triggered by mobility package, wages in non-transport services accelerated to

Employment growth in April, thousand, m/m



Source: GUS, Santander

Wage growth, % y/y



Source: GUS, Santander

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15.1% y/y from 12.5% y/y. Wages in manufacturing accelerated to 11.3% y/y from 10.5% y/y. Clearly, the wage pressure in the Polish economy is not waning, with real wage growth in corporate sector still above zero despite strong rise in CPI inflation

Mixed business optimism indicators, declining worries about impact of war

May business cycle indicators were displaying a mixed behaviour, but all remained below the long-term average. Improvements were recorded in manufacturing, construction, accommodation and catering as well as in finance and insurance. Deterioration: in wholesale and retail trade, transport, information and communication.

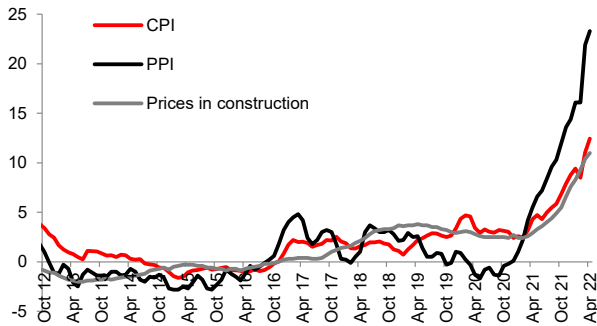
In May, firms' concerns about the impact of the war in Ukraine declined. In most sectors, fewer companies reported that it could threaten the company stability. Transport was an exemption, witnessing rising worries. The flows of workers to and from Ukraine observed by companies also strengthened. In particular, 28.5% of retail trade companies reported an inflow of workers (vs. 24.0% a month earlier), including 7.7% "serious inflow" vs. 2.8% a month earlier. In accommodation and catering, the inflow of workers was recorded by 52.9% of firms vs. 45.7% a month earlier. However, the share of firms reporting a "serious" inflow fell to 14.9% from 16.7%.

Major understatement of PPI inflation

Polish PPI inflation rose in April to 23.3% y/y, beating expectations and our forecast at around 20.5%. Apart from the stronger m/m growth than we had expected (1.9% instead of 1.1%) the huge surprise was also caused by a large revision of the March y/y print from 20% y/y to 21.9%. Our measure of core PPI (excluding the items related directly to global commodity price behaviour like mining and oil refining) approach 19% y/y from c. 17.5% which shows that the exceptionally high inflation in producer prices (the highest since 1995) is not limited to just one area of industry.

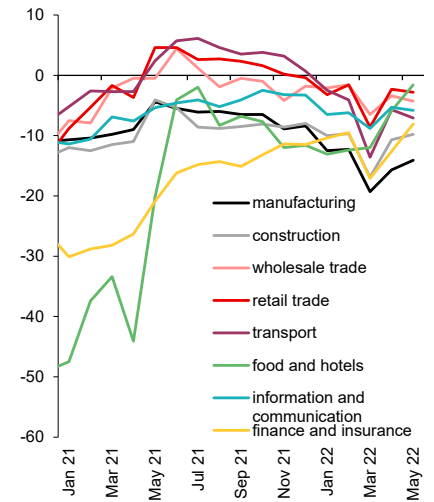
With such high inflationary pressure expressed in PPI numbers we feel our path of expected CPI may soon require another upside revision.

Selected measures of price dynamics in Poland, % y/y



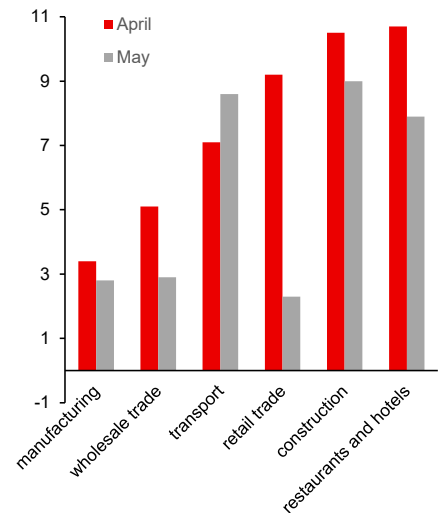
Source: GUS, Santander

Business climate indicators, deviation from average, pts



Source: GUS, Santander

Share of companies reporting that effects of war in Ukraine threaten their stability



Source: GUS, Santander

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