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Economic Comment

Polish economy loses steam

Marcin Luziński, tel. +48 510 027 662, marcin.luzinski@santander.pl
 Grzegorz Ogonek, tel. +48 609 224 857, grzegorz.ogonek@santander.pl

In May Polish industrial output rose by 15.0% y/y, but was clearly below expectations, confirming that the sector entered a slowdown period. May readings of employment and wages were also worse than had been expected. We think the labour market statistics were affected by some Ukrainians returning home while others found jobs in Poland. PPI inflation reached 24.7% y/y in May and in our view is already close to the peak. Today's set of data shows that the economy is starting to slow down.

Industry entered a slowdown period

In May Polish industrial output rose by 15.0% y/y with market consensus at 16.7% and our forecast at 17.3%. Also, the April outcome was revised lower from 13.0% y/y to 12.4%. There were two extra working days y/y in May which were boosting the headline growth. The hard data confirmed the signal from the May PMI collapse that the industry has entered a slowdown period. Seasonally adjusted industrial output fell for the second time in a row in m/m terms, this time by 1.7% (the largest drop since April 2020).

Some of the weakness may be explained by a further reduction of the intriguingly high contribution of utilities – from 5.1pp in March to 1.9pp in April and now to 0.8pp in May. The issue of supply chain disruptions also seems to have affected the outcome with the largest y/y output drop registered in the production of computers and other electronics (-5.7%). Car production showed a rise of 21.5% y/y which means it was some 4.5% above the level from May 2019.

We expect industrial output growth to fall in the coming months and turn negative in 4Q22.

Labour market data below expectations

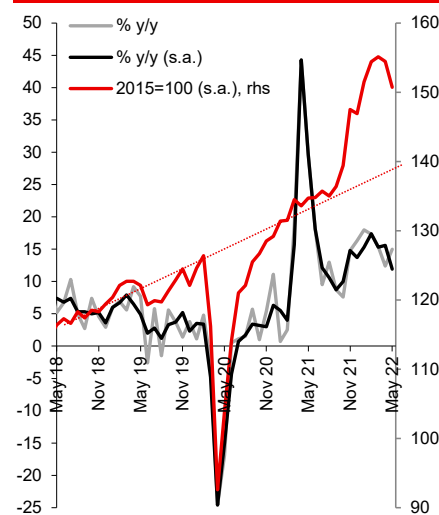
Employment growth slowed to 2.4% y/y in May from 2.8% y/y in April and versus expectations at 2.6% y/y. In monthly terms, employment fell by 0.1% m/m or 5k jobs and the downward tendency was especially strong in transport (-0.4% m/m), construction (-0.2% m/m) and manufacturing (-0.1% m/m). In our view, this may be due to weakening of economic prospects or it is a lagged effect of emigration of male Ukrainian workers due to war, as they worked predominantly in these sectors. We are expecting the employment growth to remain muted in the months to come. There is however one major issue that can affect this statistic: refugees from Ukraine. According to the government, over 200k of them already took up jobs in a simplified procedure. If they remain in Poland for longer and move into regular job contracts, they will be popping up in the employment numbers.

Wages rose by 13.5% y/y, markedly below expectations (us: 14.5% y/y, market: 15.0% y/y). While wage growth was generally a bit weaker than we expected in all the categories, services witnessed the most considerable slowdown, to 15.1% y/y from 16.7% y/y. Note that wage growth in previous months was supported by some one-off effects, like adjustment of wages in transport due to mobility package. We also think that strong inflow of Ukrainian refugees, who found work in services, could be putting a negative pressure on wages in this sector. We are expecting wage growth to remain rather elevated in the months to come, but note that inflation finally managed to jump above wage growth (CPI at 13.9% y/y in May), which is a negative information for consumption growth in 2H22.

Another rise of PPI inflation

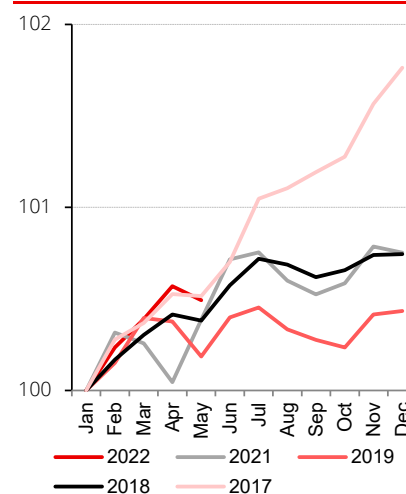
Polish PPI inflation for May came at 24.7% y/y, in line with market expectations and slightly below our forecast of 24.8%. This is the highest reading since 1995. The April print was revised higher from 23.3% y/y to 24.1%. Manufacturing PPI climbed to 22.1% y/y in May, as we had expected. What surprised us was the relatively small rise in mining and utilities (smaller than indicated by our model based on global commodity prices) which might be a sign that there are limits to the cost pressure Polish

Polish industrial output



Source: GUS, Santander

Employment in the corporate sector (Jan=100)



Source: GUS, Santander

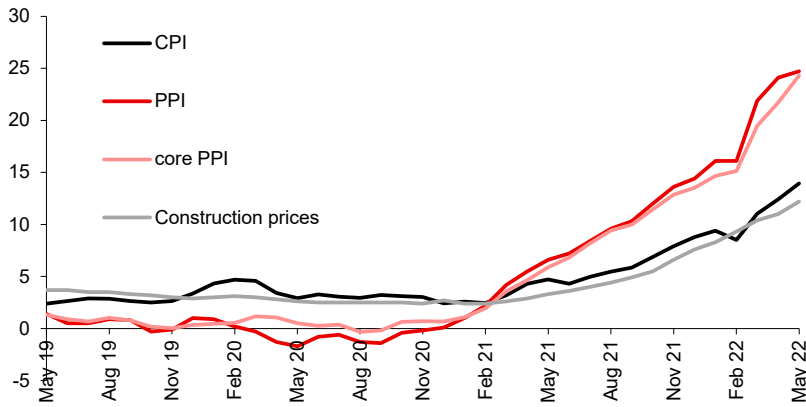
Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 22 534 18 87
 Jarosław Kosaty +48 887 842 480
 Marcin Luziński +48 510 027 662
 Grzegorz Ogonek +48 609 224 857

companies can handle. At the same time our core PPI measure jumped from less than 22% y/y to 24.3%. We think that PPI inflation is already close to the peak and by the end of the year could be back below 20% y/y.

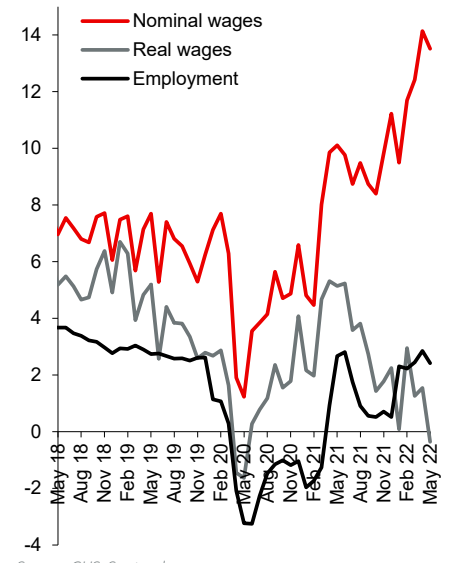
Prices in construction and assembly increased by 12.2% y/y in May vs. 11.0% in April.

Measures of price growth in Poland, %/y



Source: GUS, Santander

Labour market statistics, %/y



Source: GUS, Santander

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawla II 17. 00-854 Warsaw, Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.