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Economic Comment

Shrinking economy with expanding labour market

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Industrial production rose by 7.6% y/y in July, slightly above expectations. Seasonally adjusted output growth was 10.2% y/y (vs. 10.5% in June) and +0.5% m/m. The m/m rebound after three months of declines does not, in our view, alleviate concerns about Poland's economic growth prospects.

July's labour market statistics were much better than expected: employment grew by 2.3% y/y, wages by 15.8% y/y, with the acceleration from 13% almost entirely due to one-off payments in a few sectors dominated by large state-owned companies.

Polish PPI inflation unexpectedly fell to 24.9% y/y in July from 25.6% - the first deceleration since September 2020.

Rebound in output does not ease recession worries

Polish industrial production rose by 7.6% y/y in July, slightly above what had been expected (market 7.4%, Santander 7.5%). Seasonally adjusted output growth was 10.2% y/y (vs. 10.5% in June) and up 0.5% m/m. The latter comes after the rarely observed three monthly declines in a row. Still, the July's uptick does not even cover the decline from June alone. Moreover, we see it more as a statistical artefact than a true rebound in the manufacturing sector, given that seasonally unadjusted output dropped heavily (-6.5% m/m, which is the deepest contraction in this time of the year since 2017, amid same number of working days as in June).

The weakness was seen in particular in industries supplying the construction sector and in furniture production.

The positive signal is that output has not collapsed as much as the soft indicators like PMI suggested. Another point to make here is that the monthly production readings from the Polish economy for 2Q did not signal as large a drop in GDP in 2Q as the one shown in the GUS flash estimate. So, the July slightly better than expected output print can do little to ease the worries about Poland's growth outlook.

Labour market above expectations

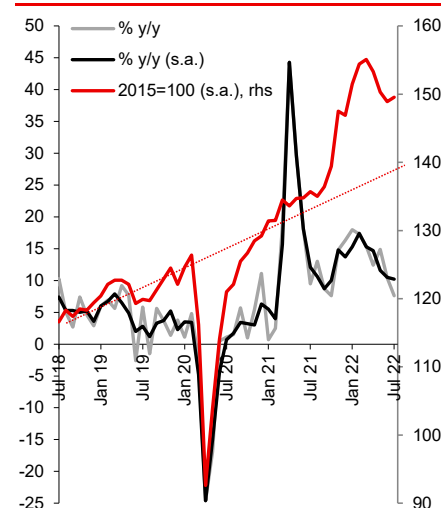
July labour market statistics surprised to the upside. Employment rose by 2.3% y/y vs forecasts and June reading at 2.2% y/y. This statistic was dragged higher mostly by higher employment numbers in manufacturing, but workplaces were also created in construction, trade, restaurants and accommodation. We are expecting, however, the upward tendencies in employment to lose steam in the months to come.

Wages rose by 15.8% y/ vs our forecast at 13.5% y/y and market expectations at 13.3% y/y. However, these numbers are not as optimistic as one could have thought. Acceleration vs June's 13.0% y/y was however almost totally driven by one-off bonuses in state-owned mining (PGG, JSW), energy and forestry companies. Mining saw wages surging by 81.6% y/y versus 17.7% y/y in June, energy by 33.2% y/y vs 15.1% y/y in June, forestry by 33.4% y/y vs 13.7% y/y in June. Wage growth in other sectors accelerated to 13.1% vs 12.9% in June, so the acceleration was almost non-existent. Note that mining, utilities and forestry are over-represented in the corporate sector data as compared to the entire economy, thus these numbers are clearly overstating the rise in consumers' purchasing power. Moreover, this effect is likely to dissipate in the following months, at least partially as some companies are still negotiating wage rises (PGG).

A turn in PPI

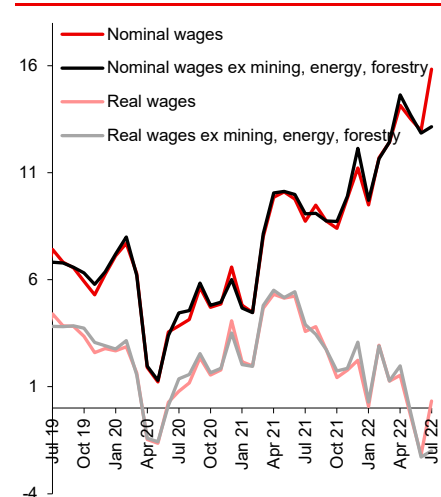
Polish PPI inflation eased in July to 24.9% y/y from 25.6%. The market believed there could be stabilisation and we expected a rise to 26%. This is the first drop of headline y/y PPI inflation since September 2020. The decline was based on a slowdown in manufacturing prices (m/m price growth of +0.3%, compared to 1.3% in June and 1.9% 2Q average). Our

Industrial output



Source: GUS, Santander

Corporate sector wage growth, % y/y



Source: GUS, Santander

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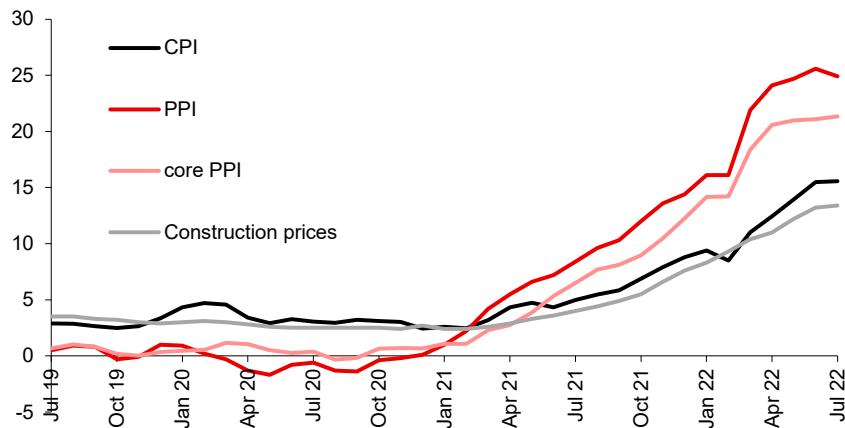
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estimates of core measure of PPI, excluding the categories directly linked to global commodity prices, showed a rise to 21.3% y/y from 21.1% in June and 21.0% in May. This means that the upside momentum is not as strong as it used to be in the previous months.

At the same time the price rise in utilities surprised us to the upside (+8.3% m/m). We see that the stats office has also reviewed the June data for utilities sector by pushing up the PPI deflator and reducing the real output – we signalled the issue of possible overestimation of utilities output at the cost of the deflator many times in our previous comments.

Construction prices increased by 13.4% y/y in July, up from 13.2% and the most since 1998. Still, the monthly rise was +0.8% - the smallest in nine months.

Inflation in Poland, %/y



Source: GUS, Santander

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