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Economic Comment

Labour market is weakening, PPI refuses to fall

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Employment rose in August by 2.4% y/y, in line with market consensus and below our call at 2.5% y/y. Manufacturing shed particularly many jobs. We are expecting the employment to be under pressure in the upcoming months. Wages slowed down to 12.7% y/y in August from 15.8% y/y in July, below our call (13.1% y/y) and market expectations (13.6% y/y). We are expecting the wage growth to slow down in the upcoming month, yet some upward signal is likely to be provided by hike in minimum wage by 15.9% in January 2023.

PPI inflation was 25.5% y/y in August. We and the market had expected it to decline to 23.7% and 24.4% respectively. The July print of 24.9% was revised higher also to 25.5%. August industrial output grew by 10.9% y/y, between the 10.1% expected by the market and our 12.9% forecast. The data give hope that the sector is not in a free fall suggested by recent very low PMIs, yet we still assume negative growth is a matter of a few months.

Labour market weakening gradually

Employment rose in August by 2.4% y/y, in line with market consensus and below our call at 2.5% y/y. In monthly terms employment declined by 5.7k. Almost the entire decline in employment occurred in manufacturing, which shed 6.5k jobs. This was the worst August for employment in manufacturing since 2011. Number of jobs fell also in trade (1.5k), which tends to employ more people in August. Meanwhile, upward tendencies were observed in information and communication (1.7k) and in professional activities (0.8k) – and these two sectors have been actually recording rising employment for some months already.

Even though employment decline in August is a rather typical phenomenon, we see these numbers as fitting into weakening economic outlook scenario. We are expecting the employment to be under pressure in the upcoming months.

Wages slowed down to 12.7% y/y in August from 15.8% y/y in July, below our call (13.1% y/y) and market expectations (13.6% y/y). While we think that the negative economic outlook is putting a cap on the wage pressure, note that the slowdown vs July was mostly due to reversal of one-off jump in bonuses in mining, energy and forestry. Wages in other sectors slowed down to 13.1% y/y from 13.5% y/y, so not that dramatically. We are expecting the wage growth to slow down in the upcoming month, yet some upward signal is likely to be provided by hike in minimum wage by 15.9% in January 2023.

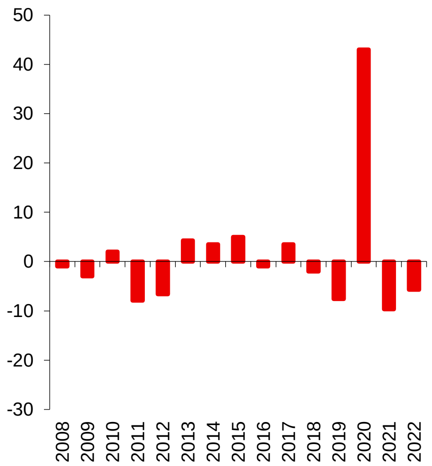
In total, labour market statistics show that the purchasing power of consumers is diminishing further, which is likely to take its toll on consumption.

PPI plateau

PPI inflation was 25.5% y/y in August. We and the market had expected it to decline to 23.7% and 24.4% respectively. What is more, GUS replaced the July print of 24.9% y/y (surprisingly low at the time of the release) with 25.5%, barely below the June reading of 25.6%. In other words, we had believed that by now we would already be some 2pp below the PPI peak and instead we are 0.1pp below the June print hoping for some relief in the coming months given the economic slowdown that makes it more difficult for companies to pass growing costs to output prices.

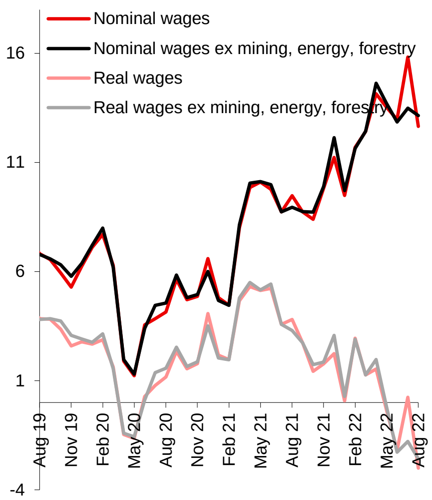
The upside deviation of August PPI inflation from our forecast and the upside revision of the July reading are based on quickly rising utilities prices (+10.0% m/m in August, following +11.1% m/m in July). Mining prices also grew much more than we had expected (coal up 8.7% m/m) given the looming European energy crisis.

Employment change in August, thousands



Source: NBP, Santander

Wage growth, % y/y



Source: GUS, Santander

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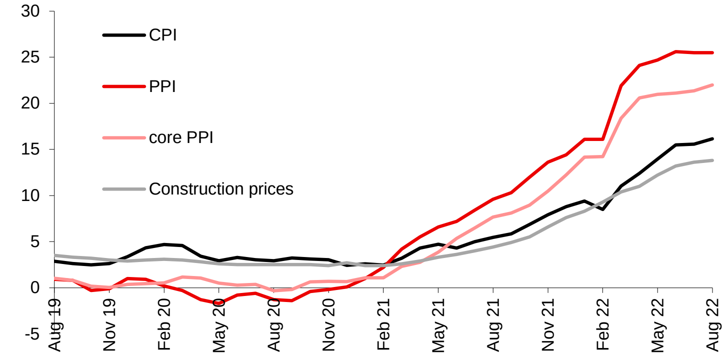
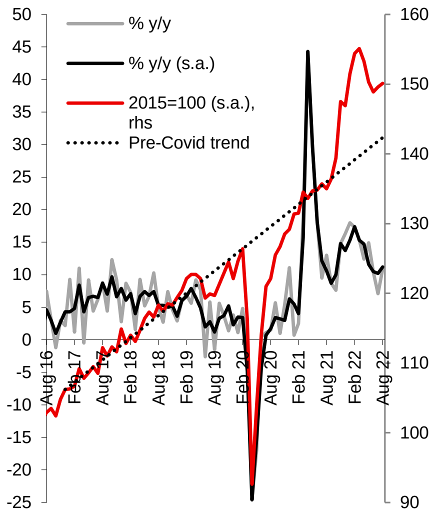
The positive thing, when it comes to combating inflation, is that manufacturing prices declined in August by 0.4% m/m – last time negative growth was seen in this category was in August 2020. Still, our estimate of y/y core PPI growth (excluding the categories directly dependent on global commodity prices) did not fall yet in August, recording 22.0% y/y vs. 21.4% in July.

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



Source: GUS, Santander

Industrial output in Poland



Source: GUS, Santander

Some recovery in industrial output

In August Polish industrial output rose by 10.9% y/y, which is between the 10.1% expected by the market and our 12.9% forecast. At the same time the previous reading was reduced from 7.6% y/y to 7.1%. August seasonally adjusted output is shown rising 0.7% m/m. The rebound comes after a collapse by more than 4% between April and June.

The detailed data indicate that food, metal, IT, machinery and equipment production showed some recovery while pharmaceuticals, chemicals, coke and oil refining were depressed. Analysis by industrial groupings shows higher growth rates in all groups except energy, with consumer durables output down only 1.4% y/y compared to -7.3% in July. In general, the August production data give hope that the sector is not in a free fall suggested by recent very low PMI prints. That said we still think that before the end of the year output growth will turn negative and will remains so for the better part of 2023.