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Economic Comment

Output and wages above forecasts, PPI slowing

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Industrial production increased 4.6% y/y in November, at the slowest pace in more than twenty months, but more than forecast. Data from the labour market did not come as a negative surprise either - employment increased in line with expectations (2.3% y/y), and wages even accelerated (13.9% y/y). A little deeper look shows that the better-than-expected November results can be attributed, at least to some extent, to the impact of transitory factors (including bonus payments in the mining industry, production jump in the energy sector), but overall the data fit the picture of an economy decelerating still a little less sharply than we anticipated. This does not change the macroeconomic scenario significantly, but it could mean that further deceleration and disinflation may be slower than the market forecasts assume.

Output slowing less than feared

Poland's industrial production rose by 4.6% y/y in November, slightly above our forecast (4.0%) and well above the market consensus (2.2%). The annual growth rate of production, although higher than expectations, is the weakest since 1Q21, reflecting the deceleration of Polish industry resulting mainly from the weakening external demand (the effect of the economic slowdown in Europe). At the same time, the seasonally adjusted production jumped as much as 2.7% m/m, the largest monthly increase since January this year, which looks impressive. However, it seems that this rebound is mainly due to an increase in energy production (+23.5% m/m, much higher than the seasonal pattern suggests), while the improvement in manufacturing was noticeably smaller. This may therefore be a jump that is not very sustainable. It is worth noting, however, that several export-oriented sectors recorded good results, including the production of cars, furniture, clothing, machinery and equipment, pharmaceuticals and chemicals.

In our view the data signals that the industry is entering 4Q22 in a slowdown mode, but - as in the previous two quarters - the slowdown may prove less sharp than we expected. We think industrial production will continue to decelerate, and its annual growth rate will be in the negative territory in 1Q23.

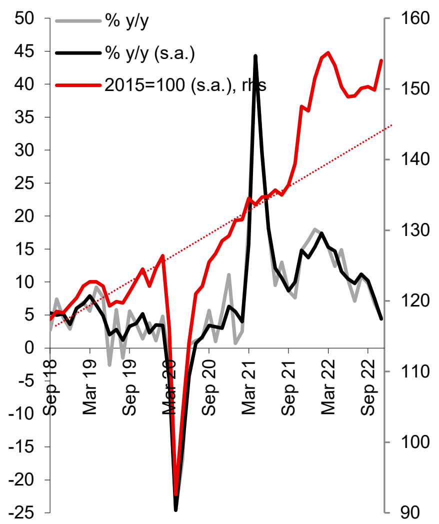
Wages higher thanks to mining, employment in line with forecasts

Employment in the corporate sector rose by 2.3% y/y in November, in line with expectations. In monthly terms, employment advanced by 6.6k FTEs, which is a rather weak result for this month. Especially given that employment in manufacturing fell for the 4th month in a row. We are expecting employment statistics to be gradually deteriorating in the upcoming months.

Wages in the corporate sector accelerated to 13.9% y/y in November from 13.0% y/y in October, beating expectations (we: 12.7%, market: 12.8%). Wages were boosted mostly by mining, which saw wages accelerating to 35.8% y/y from 10.8% y/y. We think this happened due to early payment of Miner Day bonus in PGG. Wages ex mining remained fairly stable, at 13.2% y/y in November vs 13.1% y/y in October.

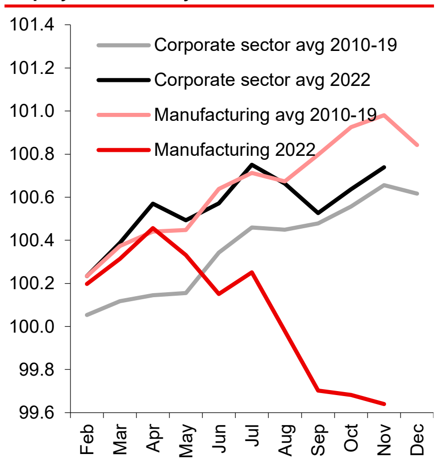
The acceleration in wages was driven by one-off factors in mining, which is overrepresented in corporate sector data as compared to its weight in the entire economy, and thus do not reveal a rising wage pressure. We think that wage growth will remain in double-digit territory in the upcoming months, but it is unlikely to accelerate, given weakening labour demand. In real terms, wages declined by 3.1% y/y and the real wage growth is likely to remain negative in for several quarters, putting a negative pressure on the private consumption.

Industrial output, % y/y



Source: GUS, Santander

Employment, January = 100



Source: GUS, Santander

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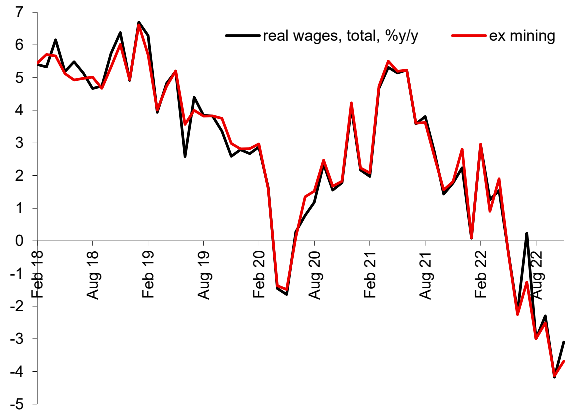
Real wage growth, % y/y



Source: GUS, Santander

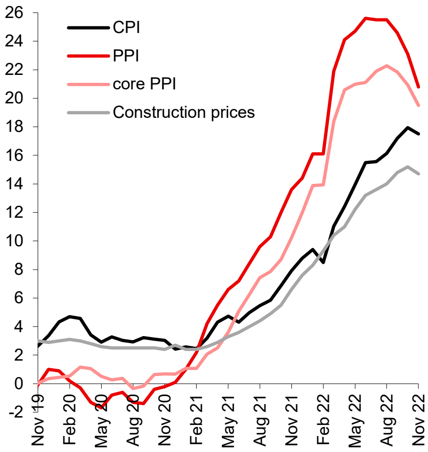
PPI in a downward trend

PPI growth slowed in November to 20.8% y/y from the (revised upwards) 23.1% y/y in October, almost in line with our forecast (20.7%) and below the market consensus (21.1%). Core PPI (our estimate) fell to 19.5% y/y from 20.9% y/y.

This was a continuation of PPI slowdown, which has been taking place since June (the peak was at 25.6% y/y) and we think is likely to continue, amid global commodity prices coming off the peaks and weakening supply chains disruptions. It will be one of the factors facilitating CPI disinflation in 2023, after it reaches its local peak around 20% in February.

Also momentum of prices in construction declined in November – to 14.7% y/y from 15.2% y/y in October. This was the first decline in this gauge in annual terms in 24 months.

Inflation measures, % y/y



Source: GUS, Santander

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