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Economic Comment

Wages quite strong, unlike employment and output

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Data released today sent a stagflationary tone. Industry recorded an unexpected 1.2% y/y output decline (consensus +0.8% y/y, our forecast +1.4% y/y) and employment was lower than expected (0.8% y/y in February vs. our forecast of 0.9% y/y and market consensus of 1.0% y/y). Wages, on the other hand, accelerated in February to 13.6% y/y from 13.5% y/y in January, while we expected a slowdown to 12.0% y/y and the market saw 11.9% y/y. Although PPI inflation fell to 18.4% y/y in February from 20.1% y/y in January, it was higher than expectations and the previous reading was revised upwards. The figures support our scenario that the Polish economy continued to decelerate at the beginning of the year (we expect the economy to bottom out in 1Q) and that inflation will fall, but slower than the NBP expects.

Industrial production still braking in February

Polish industrial output registered an unexpected fall by 1.2% y/y (consensus +0.8% y/y, our forecast +1.4% y/y). This is the third downside surprise in a row, going against a radical improvement in manufacturing pictured by PMI and other business sentiment indicators. What is more, GUS revised lower the January reading to 1.8% y/y from 2.6% (at the same time pushing higher the January PPI to 20.1% y/y from previously reported 18.5%). Negative y/y output growth was also seen in the seasonally adjusted measure (-1.0% y/y), for the first time since July 2020. In m/m terms SA output rebounded by 0.9% after a fall by 1.3% (or more – this was what GUS showed for January a month ago, and might require a downside revision as well).

Production growth of consumer durables not only remained negative for the ninth month in a row, but also recorded the worst print (-9.9% y/y) since the first months of the pandemic. This time consumer non-durables also performed poorly, slowing down to 3.8% y/y from 8.0%. Intermediate goods declined y/y for the third time in a row, and its 5.8% drop was the deepest since early pandemic. Investment goods kept growing around 11% y/y.

Relatively strong output growth was seen in pharmaceutics, electrical equipment, printing, coal mining and utilities. Weakness relative to the usual seasonal pattern was seen in beverages, clothes, chemicals and other transport equipment than passenger cars.

We expected 1Q to mark the trough in this cycle, but the February production reading and the negative revision of January make us wonder if we are capturing correctly the depth of the economic slowdown with our -1.0% y/y 1Q23 GDP forecast.

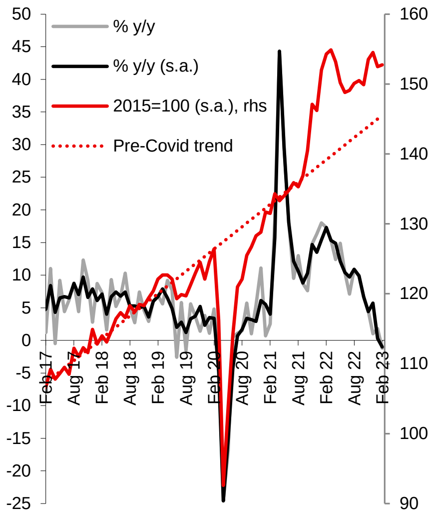
Employment below expectations

Employment growth slowed to 0.8% y/y in February from 1.1% y/y versus our forecast 0.9% y/y and market consensus at 1.0% y/y. In monthly terms, employment fell by 3.8k jobs and a decline is quite unusual for February. These disappointing trends in employment were quite broad-based, with clearly weak performance in manufacturing (-0.6% y/y after -0.5% y/y in January), construction (-1.0% y/y after -0.3% y/y) and trade (2.5% y/y after 3.5% y/y). However, administration and supporting activities were the main culprit behind the negative headline, as the sector saw a sudden decline in employment by 5.8k jobs or 1.4% m/m.

While we generally see that labour demand in Poland is rather low and this will be weighing on employment in the months to come, weak result in administration and supporting activities may be related to a strong hike in minimum wage (by 16.0% in January).

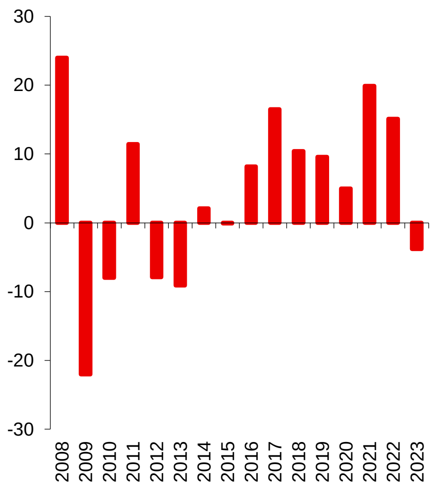
A quite surprising jump in employment was visible in other services: by 1.8k and 5.8% m/m. We think that GUS could have reclassified some companies from administrative and supporting activities to other services, which could be a partial explanation of strong result in the former sector and weak in the latter.

Industrial output in Poland, constant prices



Source: GUS, Santander

Change in corporate sector employment in February, thousands



Source: GUS, Santander

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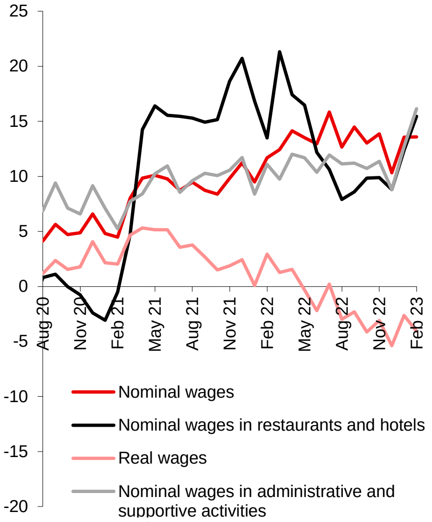
Wages boosted by minimum wage hike

Wages accelerated to 13.6% y/y in February from 13.5% y/y in January, while we expected a slowdown to 12.0% y/y and market saw 11.9% y/y. Real wages declined by 4.1% y/y, after -2.6% y/ in January.

Wages in mining accelerated to 21.1% y/y from 15.8% y/y thanks to wage hikes in two big mining companies, in line with our expectations, but a strong momentum was also visible in other sectors with wages ex mining rising by 13.4% y/y vs 13.5% y/y in January. This was especially visible in accommodation and restaurants and administration/supporting activities, which recorded an acceleration to 15.5% y/y from 12.4% y/y and to 16.1% y/y from 12.7% y/y, respectively. We think these are lagged effects of minimum wage hike, as these sectors are highly dependent on minimum wage earners (23.3% and 43.4% of employment in 2021, respectively). Construction is another sector heavily dependent on minimum wage earners (31.7% in 2021), but no acceleration was recorded in this sector (7.8% y/y after 8.1% y/y in January), which is – in our view – connected to a very weak business climate in this sector.

In our view, wage growth is likely to remain in double-digit territory throughout 2023, but we see some slowdown, given weak labour demand. In real terms, wage growth is likely to remain negative until 3Q23.

Wages in the corporate sector, % y/y



Source: GUS, Santander

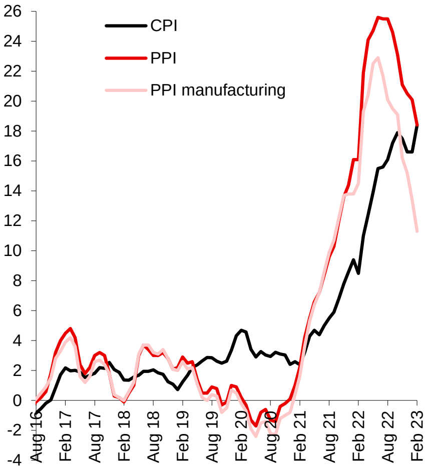
PPI inflation beat forecasts in February and got revised higher in January

PPI inflation fell to 18.4% y/y in February from 20.1% y/y in January, with January revised upwards from 18.5% y/y and market expectations and our forecast for February at 17.7%. A positive note in this data from the point of view of taming inflation is the fourth consecutive reduction m/m in producer prices in manufacturing. Our core PPI inflation measure (calculated excluding categories strongly linked to global commodity prices) fell to 17.2% y/y in February from 18.5% in January and having peaked last August at 22.5% y/y.

Price growth in construction and assembly production was 12.9% y/y in February, compared to 13.6% in January. In these data, there was also a significant upward revision of the January reading (m/m price growth at 0.4% instead of the price halt shown originally by GUS).

Despite the weaker-than-forecast rate of disinflation in producer prices, our estimates still indicate that there is a chance of PPI growth returning below 10% y/y in the spring.

Inflation in Poland, % y/y



Source: GUS, Santander

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