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Economic Comment

Output and price growth in industry sharply down

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In April, apart from the fifth consecutive surprisingly weak reading of industrial production (-6.4% y/y against expectations of -4.3% y/y) and a strong fall in PPI inflation (to 6.8% y/y from 10.3%), the Polish economy showed an unexpected rebound in employment in the corporate sector (+0.4% y/y, with 7.5k jobs added m/m). Wages rose by 12.1% y/y in April, more or less in line with forecasts. A set of sectoral economic indicators for May revealed a decline in optimism and interrupted a series of improving expectations. All in all, the data bode ill for what the economy may show in 2Q, although we are still hoping for a rebound in GDP growth in that period.

A quicker fall of industrial output

Polish industrial output fell 6.4% y/y in April. Market consensus and our forecast were -4.3% y/y, while the previous reading was corrected to -3.0% y/y from -2.9%. This is the fifth negative surprise by industry performance in a row. In seasonally adjusted terms, output was down 3.4% y/y which is the weakest print since May 2020, and the m/m growth got even more negative in April (-1.6% vs. -1.0% in March). Manufacturing sector was to blame for industrial output weakness, collapsing 5.6% y/y (from -0.4% y/y in March).

All main industrial groupings except investment goods saw negative y/y growth. Consumer durables have been showing negative readings for almost a year but in April non-durables also fell y/y, for the first time since early pandemic. Intermediate goods were down 10.8% y/y which to us looks like a sign that the industrial weakness will not go away quickly.

Relative to the normal seasonal pattern, pharmaceuticals, tobacco and metal production performed reasonably well in April. On the other hand, the performance of textiles, furniture and other wood products was worrying, and unusually low growth was recorded in many export-oriented industries (automotive - we suspect that the pent-up demand from the period of supply disruptions is almost exhausted - but also electronics and electrical appliances). The largest negative impact on the headline annual production growth came in April from the production of cars and foodstuffs.

The weakness of industrial production may persist in 2Q, and even in 3Q its y/y growth may remain negative, but there should be some signs of recovery shown by the sector by then.

Unexpected jump in employment

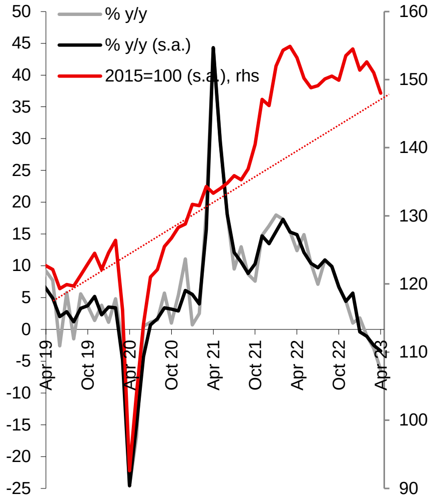
Employment advanced by 0.4% y/y in April, as compared to market consensus at 0.2% y/y and our call at 0.1% y/y. In monthly terms, 7.5k jobs were added (0.1% m/m) and this is a quite good result. Improvement seems to be broad-based, with even manufacturing posting positive results after months of underperformance. Still, construction was a frontrunner with a 0.8% m/m jump in job count. Despite the positive reading, we think this is too early to say that the labour demand has revived, given weak results of industrial output. Still, we think that the trough of the economic cycle was set in 1Q23 and the upcoming months will bring some recovery.

Wages rose by 12.1% y/y in April, roughly in line with forecasts. Mining again was a strong contributor, with acceleration to 48.6% y/y in April from 1.8% y/y in March thanks to hikes in one of coal mining companies. Meanwhile, wages ex mining decelerated to 11.2% y/y from 13.0% y/y and its momentum was not particularly strong. In real terms, wages fell by 2.2% y/y vs -3.0% y/y in March. We think that the real wage growth is likely to turn positive in 2H23, bringing some support for the consumers. However, this will be achieved mostly thanks to lower inflation, not to higher wage growth.

PPI inflation fell more than expected

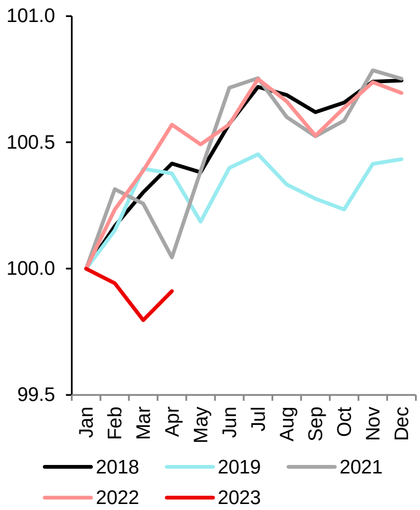
PPI inflation fell to 6.8% in April from 10.3% y/y in March (revised data), stronger than forecasts (consensus and us: 7.7% y/y). On a monthly basis, producer prices fell by 0.7%,

Industrial output in Poland



Source: GUS, Santander

Employment in the corporate sector, % y/y



Source: GUS, Santander

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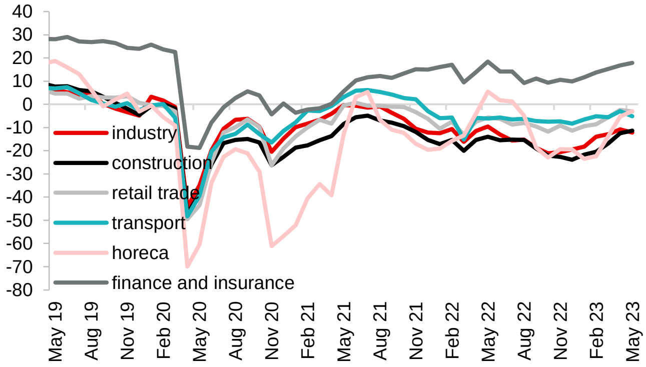
driven primarily by lower prices in the energy, gas and steam generation category (-2.1% m/m) and in manufacturing (-0.5% m/m). In the case of manufacturing, the key factor was the fall in crude oil prices, which dragged prices in "coke and refined petroleum products processing" category lower by 3.5%.

In construction, too, the annual rate of price growth declined, to 11.3% y/y from 12.0% y/y in April, but on a m/m basis the momentum tended to gain strength, with prices rising by 0.7% in April, the highest reading since October.

Less optimism in companies

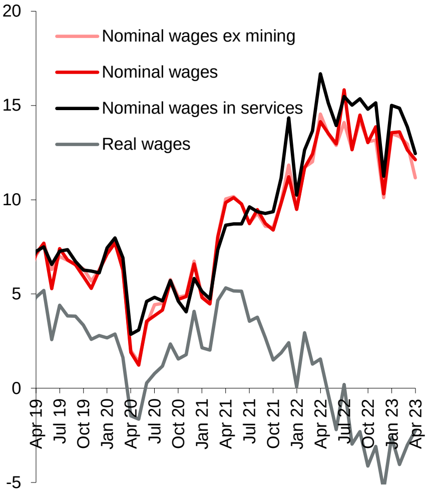
May's business sentiment indices showed less positive momentum than in the previous months. All of the seasonally-adjusted sentiment indices fell on a monthly basis except for the one for finance and insurance sector. Most considerable declines were visible in industry, transport, retail trade and the "accommodation and catering" category. Between January and April, the vast majority of sectoral indices regarding the assessment of future situation went up, while in May, only the construction sector signalled a significant improvement in the outlook. Deterioration in the current situation was reported primarily by the wholesale trade and transport sectors.

Sectoral business sentiment indicators



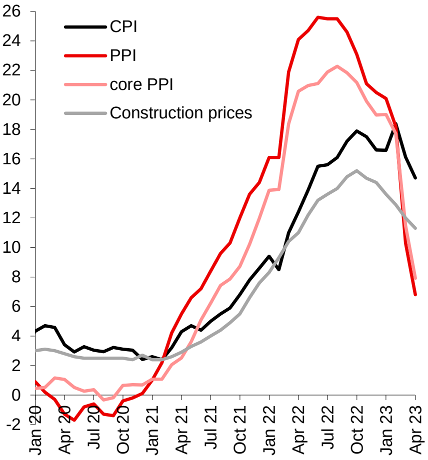
Source: GUS, Santander

Wages in the corporate sector, % y/y



Source: GUS, Santander

Price measures, % y/y



Source: GUS, Santander

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