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Economic Comment

Output still weak, solid wages, PPI disinflation

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Industrial output did not surprise negatively in May, for a change, and fell by 3.2% y/y (-1% m/m sa) vs. -6.0% in April. The disappointment in wages (+12.2% y/y in May vs. 12.1% in April and expectations at 12.6% y/y) was mostly due to mining, apart from that the momentum stayed in line with seasonal pattern. Employment rose by 0.4% y/y in line with expectations and in m/m terms it erased the unexpected April increase. We would still call the labour market resilient. PPI inflation surprised to the downside and decelerated in May to 3.1%YoY (-1.6% m/m) from 6.2% y/y versus market consensus at 4.6% y/y and our estimate at 4.1% y/y. Large part of the surprise came from downward revision of April PPI print from 6.8% y/y driven by deeper declines in manufacturing and energy prices, followed by accelerated price declines in manufacturing in May. Agricultural prices slid into negative territory (-4.6% y/y) and this suggests continuation in CPI food inflation slowdown. However, the rising risk of drought can change this trend in autumn.

Third month of industrial output decline in a row, but annual growth went up

Industry performance improved in May when it comes to annual output growth, as we expected. Production was -3.2% y/y vs. -6.0% in April (upside revision from -6.4%), close to what the market (-3.1%) and we (-3.0%) expected. Note that all the previous readings for 2023 were clearly worse than expected. The seasonally adjusted growth was -2.4% y/y, which is a higher print than the previous two. Still, in m/m s.a. terms output was down 1.0% (the third negative reading in a row), which means we cannot talk about a proper rebound in industry yet.

The improvement in headline growth came from manufacturing (2.2pp higher contribution than in April) and utilities (added 0.6pp more). The production of food and cars saw the largest rebound, followed by electrical and other transport equipment, rubber and plastic products, as well as beverages.

Soft indicators are not signalling any quick recovery in industry ahead but we believe that after a couple of months with similar y/y growth to May the sector may start to move back towards positive output growth this year.

Labour market still resilient

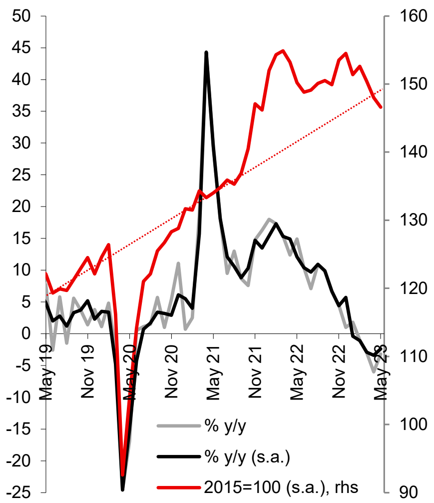
Employment rose by 0.4% y/y in May, in line with our expectations. In monthly terms, employment fell by 6.6k, erasing the surprising April increase. Not only was this one of the weakest Mays in a few years, but it also process that positive result in April was driven by one-off and temporary factor, not by reviving labour demand.

Manufacturing shed 3.7k jobs, trade 2.7k jobs, administrative and supporting activities 1.6k jobs. Transport fared quite well (+2.2k), but in general these numbers confirm that demand for labour remains weak. We think it should get some breather in 2H23, as the economy will be recovering.

Wages rose by 12.2% y/y in May vs 12.1% in April and expectations at 12.6% y/y. The disappointment versus forecast was mostly due to mining, which saw a sudden deceleration to 20.2% y/y from 48.6% y/y. Mining is recording a high variability due to shifts in payments of bonuses and disbursement of inflation benefits, so data ex mining is more indicative. Wages ex mining have actually accelerated to 12.0% y/y from 11.2% y/y and wages in services to 12.9% y/y from 12.5% y/y.

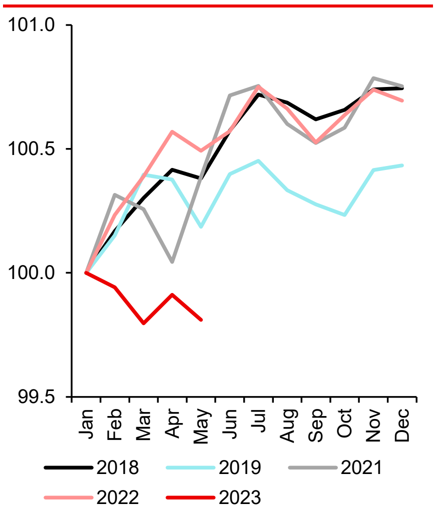
These numbers were roughly in line with our expectations and thus the wage momentum seems to be roughly unchanged. Monthly wage growth was more or less aligned with the seasonal pattern. In real terms, wages fell by 0.7% y/y and this figure is likely to turn

Industrial output in Poland, constant prices



Source: GUS, Santander

Employment in the corporate sector, January = 100



Source: GUS, Santander

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positive soon, maybe as early as July, delivering support for annual consumption growth rates. We think that the improving economic activity as well as strong hike in minimum wage in 2024 (+20%) will anchor nominal wage growth in double-digit territory for a longer time.

Deeper disinflation in producer prices

PPI inflation surprised to the downside and decelerated in May to 3.1% y/y (-1.6% m/m) from 6.2% y/y versus market consensus at 4.6% y/y and our estimate at 4.1% y/y. Large part of the surprise came from downward revision of April PPI print from 6.8% y/y driven by deeper declines in manufacturing and energy prices. Moreover, both categories were lower than we assumed also in May, which also saw first drop in mining prices since November last year.

Data fits well into downside PPI surprises in Germany and China, which along zloty strengthening and declines in energy reflects weakening input prices. This allows manufacturers to lower their prices at accelerating pace (-1.3% m/m, -1.7% y/y), which seems in line with latest results of May manufacturing PMI showing record monthly drop in produced goods prices, partly reflecting lowering inputs but also pattern aimed at reviving demand. Our estimates showed also somewhat slower disinflation and at higher growth rate levels of core PPI to 6.1% y/y from 8.3%.

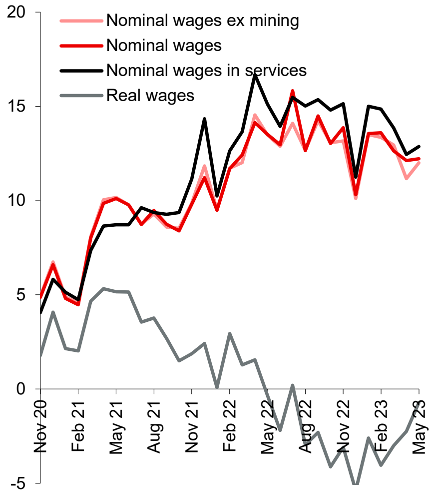
We expect further headline PPI disinflation toward 0-1% y/y in mid-2023 with downside risk and stabilisation at a slightly higher level in 2024. Weak PPI growth may add to disinflationary factors affecting CPI, though in our baseline scenario we still see stubborn consumer core inflation.

Construction priced decelerated as well to 10.9% y/y from 11.4% y/y mainly due to weakening of price dynamics for buildings and civil engineering. Monthly price growth amounted to 0.9%, which was the highest rate since November 2022, still well below 2022 average but with and upward trend since that start of the year.

Strong decline in prices of agricultural products

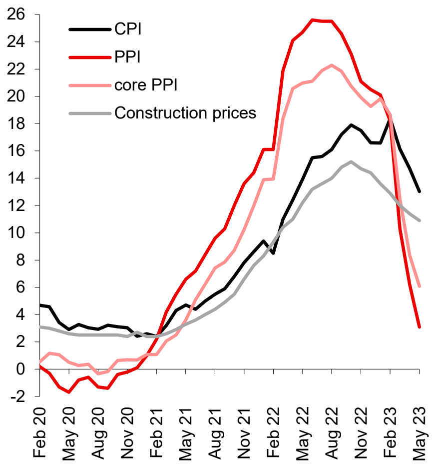
Agricultural prices fell by 3.6% m/m and 4.6% y/y in May. On a monthly basis, the prices of wheat and rye declined most sharply, declines were also recorded in milk, pigs and poultry, while cattle prices increased slightly. The behaviour of agricultural prices suggests that final food prices should continue to decelerate (rule-of-thumb says that agricultural price movements are half a year ahead of consumer prices). As much as we believe that food prices will slow down in the coming months, the increasing risk of drought casts doubt on whether this decline can be sustained in the autumn.

Wages in the corporate sector, % y/y



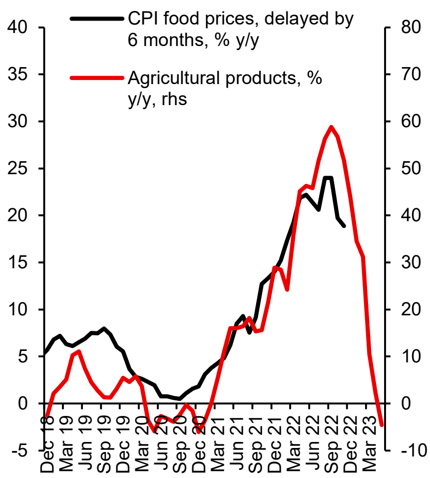
Source: GUS, Santander

PPI, CPI, construction prices, %y/y



Source: GUS, Santander

Agricultural products and food prices



Source: GUS, Santander

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