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Economic Comment

Economic activity got a bit better

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Industrial production accelerated to -1.4% y/y (+0.4% m/m SA) from -2.8% y/y, surprising positively. Construction output also accelerated to 1.5% y/y (-0.5% m/m SA) from -0.7% y/y, slightly above the consensus. Slightly weaker data came from the labour market, where employment growth decelerated to 0.2% y/y from 0.4%, and wage growth remained high (the decline to 11.9% y/y from 12.2% was only due to fluctuations in mining). PPI inflation fell to 0.5% y/y from 2.8% y/y. Data from the real estate market showed still poor prospects for the residential construction industry. Today's GUS data may signal a rebound in industry, but, in order to confirm it, we will have to wait a couple more months. The PMI report indicated that the de-stocking in manufacturing continues. A stronger industrial recovery may require a rebound in private consumption. Private consumption will benefit from wage growth staying at a double-digit level and its acceleration in real terms, whereas rapid PPI disinflation may contribute to a drop in CPI inflation and may be an argument for interest rate cuts this year. We still see CPI inflation going down only gradually in 2024, with interest rate cuts by the MPC smaller than the market expects. Today's data support our forecast of a slight acceleration of GDP growth in 2Q23.

Positive surprise in industrial output

In June Polish industrial output was down 1.4% y/y. This is a stronger print than the market consensus (-1.9%) and our estimates (-2.5%). Manufacturing was down just 0.7% y/y (compared to -2.3% y/y in May). What is more, the May reading was upgraded to -2.8% y/y from -3.2% on a positive revision of the performance of manufacturing.

In SA terms output was down just 0.8% y/y (the best print since January) and the SA m/m growth turned positive (+0.4%) having stayed three months below zero.

In the industrial output growth structure the automotive sector was still shining. It was also responsible the most for the June improvement of the annual growth of total output. The growth contribution also went up significantly in June in case of metal products and rubber and plastics products. Compared to the usual seasonal pattern another two industries looked quite positive: tobacco products and machinery and equipment.

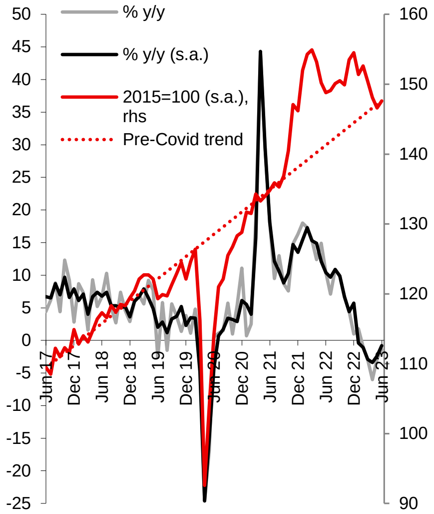
In our view there is a growing chance that headline industrial output will be showing positive y/y growth in 4Q. This would be supportive for our forecast of economic rebound in 2H23.

Mixed data from the labour market

Employment growth slowed to 0.2% y/y in June from 0.4% y/y in May, missing the consensus and our forecast at 0.4% y/y. In monthly terms employment declined by 4.9k and this is the worst result in that month since 2009. Most considerable decreases were recorded in manufacturing (-2.9k), administrative/supporting activities (-1.3k) and information/communication (-0.9k). Employment in other sectors was fairly stable.

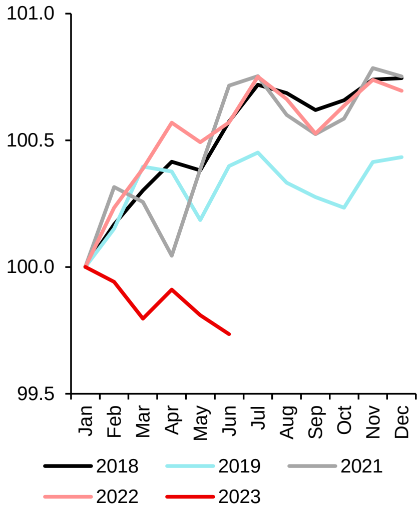
The labour market is under impact of the economic slowdown, but note that loss in employment has totalled only 0.3% since January and it was even lower in terms of the employees count, as the adjustment was channelled mostly through working time. This suggests no major upside for unemployment. Note also that some other statistics, like National Accounts data suggested an improvement in employment in 1Q23. We think that the labour market will see some upward momentum in 2H23, as the economy should be rebounding by then.

Industrial production in Poland



Source: GUS, Santander

Employment in the corporate sector, January = 100



Source: GUS, Santander

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Wages rose by 11.9% y/y in June vs. 12.2% y/y in May with market consensus at 12.1% y/y and our forecast at 12.3% y/y. In real terms, wages rose by 0.4% y/y and were in black for the first time since July 2022.

The slight disappointment was driven by mining, which saw wages declining by 4.9% y/y in June after a rise by 20.2% y/y in May. Meanwhile, wages ex mining accelerated to 12.5% y/y from 12.0% y/y and wages in services to 13.3% y/y from 12.9% y/y. Clearly, these numbers do not suggesting a weakening wage pressure, despite the lower headline print. Wages ex mining rose by 1.8% m/m vs. average rise for June in 2015-2022 at 1.3% m/m. Wage growth will be additionally fuelled in July by the hike in minimum wage by about 3% (to PLN3600 from PLN3490).

In our view, wage growth will remain in double digits for the upcoming quarters, supported by still high inflation, rebounding labour market and strong rise in minimum wage in 2024. Real wage growth will remain positive, providing an important support for private consumption.

Further PPI disinflation

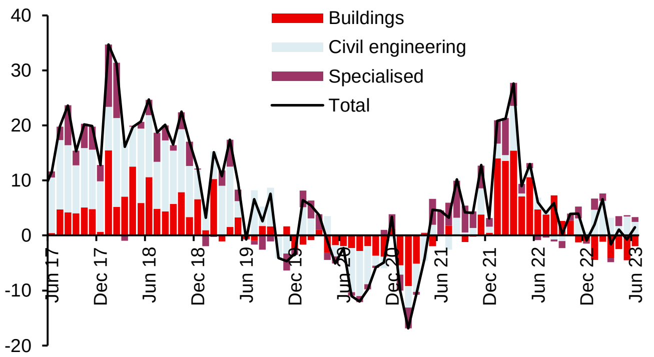
PPI inflation decelerated in June to 0.5% y/y from downwardly revised 2.8% y/y (from 3.1%) in May, which was below market consensus at 1% y/y and above our estimate at 0% y/y. Producer prices declined by 0.7% m/m with drops across all key sectors second month in a row. Downward revision of the May print was mainly driven by manufacturing sector, where prices have been falling since October, at much faster rate than on average in euro area, supported by stronger zloty. Still, decline in manufacturing prices in June was slightly lower than we had assumed.

We expect further deceleration in PPI with negative prints in y/y terms as soon as in July and until early next year. This should help to ease CPI inflation pressures at least in the short term. PPI annual growth will likely return to positive territory in 2024, which could slow down CPI disinflation process as well.

Construction output back to positive growth

Construction output was up 1.5% y/y in June after recording -0.7% y/y in May. The result fell between the median of market forecasts at +1.2% and our +3.0% call).

The y/y growth structure of construction production



Source: GUS, Santander

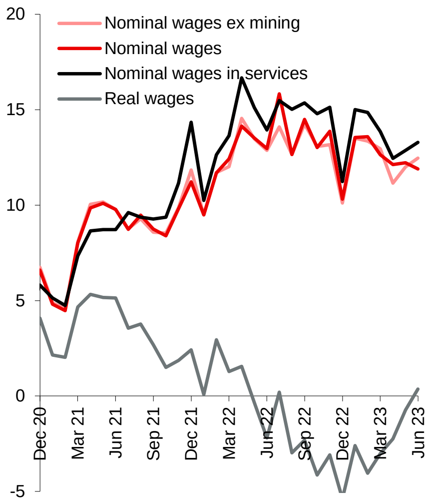
Civil engineering keeps offering the largest positive contribution to construction growth although in June it lost some momentum (+5.9% y/y, +9.1% previously). Construction of buildings improved to -5.7% y/y from -12.2% y/y previously). Positive construction growth was based on investment works (+13.0% y/y) rather than maintenance and repair (-14.0% y/y).

Average construction output growth this year may be slightly above zero in our view.

The real estate market is still weak

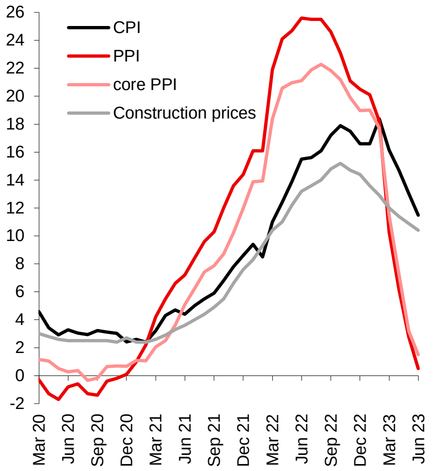
In June, 18.2k new dwellings were completed, which means an increase of 2.1% on an annual basis. Thus, the sum of dwellings completed in the first half of 2023 amounted to 111.8k, achieving a growth rate of 2.5% y/y. The numbers of granted building permits and commenced constructions kept on dropping. In June, only 14.9k (-57.4% y/y) of the former were granted, which is the lowest since November 2015. As to the latter, 16.1k (-32.8% y/y) constructions were commenced, which is less than in May, but still relatively many. The index of projects in progress (difference between rolling sums of new permits and completions) fell to negative values and was the lowest since 2014.

Wages in the corporate sector, % y/y



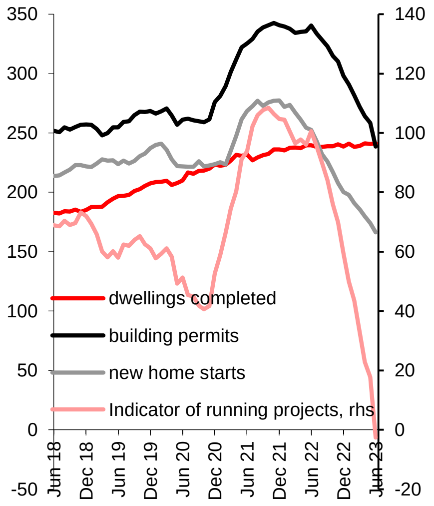
Source: GUS, Santander

PPI, % y/y



Source: GUS, Santander

Polish housing market tendencies, 12M moving sum, in thousand units



Source: GUS, Santander

There are already visible signs of a recovery in demand on the real estate market, such as an increase in sales of mortgage loans. Moreover, July marked the start of the government program of subsidized 2% mortgage rates, which - in our opinion - will additionally stimulate the mortgage market. With the supply still low, these developments may imply that there will be an upward pressure on real estate prices in the coming quarters.

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