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Economic Comment

A chill blow in July data

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The second half of the year, which as we assumed in the baseline scenario, should bring a recovery to the Polish economy, began with worrisome signals from industry and labour market. Industrial output fell to -2.7% y/y from -1.1% y/y, while the market expected it to improve to -0.9% y/y. Employment growth slowed in July to 0.1% y/y from 0.2% y/y in June with manufacturing employment down for the third time in a row. Wage growth decelerated to 10.4% y/y in July form 11.9% y/y in June, more than expected (us: 11.0% y/y, market: 11.1% y/y). PPI inflation turned negative and – in our view - should stay significantly so till 2Q24, which should support further CPI disinflation. The data support interest rate cuts in Poland, although we believe that they will not be as quick as the market is pricing in.

Deepening of the decline instead of a rebound in industrial production

In July Polish industrial output dropped by 2.7% y/y while the market expected -0.9% y/y and we thought it would stay at -1.4% y/y. The upside revision of June to -1.1% y/y does not change the sense of continued overall weakness in industry seen in the release.

Manufacturing output declined by 2.4% y/y (down from -0.3% y/y in June). In SA terms industrial output was down 2.0% y/y (close to the average 1H23 growth of -1.8% y/y) and the m/m SA print was -1.0% after June's +0.4%.

The deepening of the fall in industrial output growth was caused by the output of electrical equipment (-3.3% y/y from +9.7% y/y in June, including home appliances), motor vehicles and metal products. The contribution to total output growth improved in the production of beverages, clothing, sectors supplying materials for construction and other transport equipment.

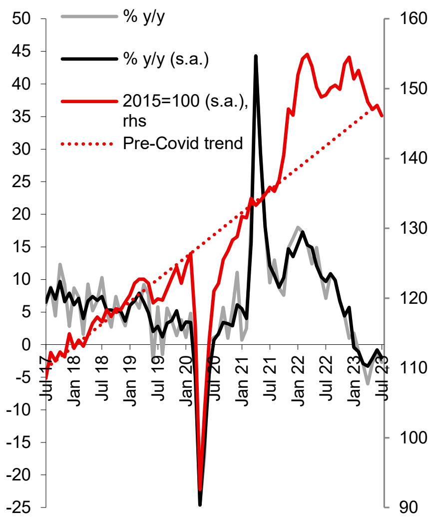
On one hand we feel that the highly negative signals from PMI surveys for Polish manufacturing are exaggerated, on the other hand the collapse of demand seems to have led to excessive build-up of stocks of finished goods which may mean that current output will find it hard in the following months to return to positive y/y growth. We still assume an economic rebound in Poland in 2H23, and we have not expected the industry sector to be its driver. The July output data signal the risk that industry might help less in the economic recovery process than we thought.

Labour market weakened in July

Employment growth slowed in July to 0.1% y/y from 0.2% y/y in June after a monthly increase by 0.9k FTEs, in line with market consensus and slightly above our forecast (0.0% y/y). Employment in manufacturing fell again, for the third time in a row, this time by 3.7k jobs, but the headline figure managed to go up thanks to stronger performance in other sectors, especially restaurants/hotels (+1.8k jobs) and construction (+0.8k). In general, current trends in employment do not look very optimistic, and the increase in employment was significantly lower than usually in July.

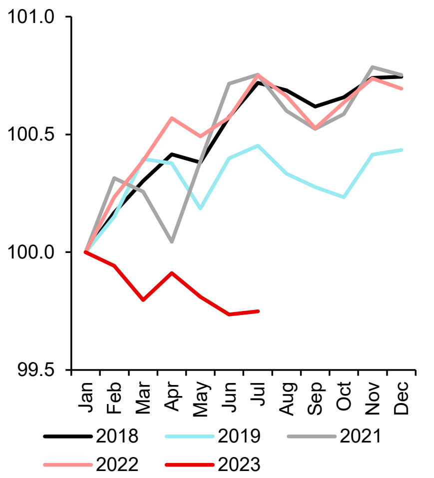
Wage growth slowed to 10.4% y/y in July from 11.9% y/y in June, more than expected (we: 11.0% y/y, market: 11.1% y/y). Slower growth in June was primarily caused by high base effect in energy sector in June 2022 (slowdown to -1.2% y/y from 12.2% y/y, which subtracted around 0.3 percentage points from the result of the whole corporate sector), but manufacturing and services surprised to the downside with a slowdown to 11.2% y/y from 12.2% y/y and to 11.6% y/y from 13.3% y/y, respectively. Meanwhile, wages in mining rebounded to -0.3% y/y from -4.9% y/y thanks to bonuses and rises in some mining

Industrial output in Poland



Source: GUS, Santander

Employment in corporate sector, January = 100



Source: GUS, Santander

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companies. Real wage growth slid below zero again, after just one month above this mark. This is not a good harbinger for 3Q consumption prospects

The slower economic growth is taking its toll on the labour market. While weaker trends in employment have been visible for some time already, disappointment in wages comes a surprise, especially given that July saw a hike in minimum wage to PLN3600 from PL3490 (+3.2% m/m). Upcoming months will show whether this was only a one-off, or a beginning of softer trend in wages.

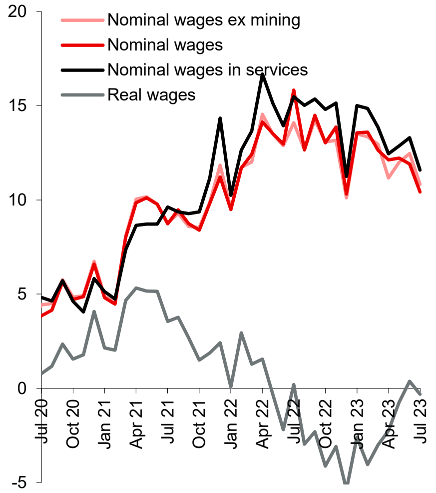
PPI turns negative

PPI decelerated in July to -1.7% y/y from +0.3% y/y in June (revised from +0.5% y/y) and was below our estimate at -1.0% y/y and market consensus at -1.1%.

Downward surprise was driven mainly by lower-than-expected readings for manufacturing prices (-0.7% m/m) and mining (-2.6% m/m) and the downward revision for June was also caused by the two above-mentioned sectors. This reflects gradual coal price declines and the zloty's strength. Manufacturing prices recorded ninth consecutive monthly drop. Core PPI fell in July to -1.2% y/y from +1.4% y/y in June.

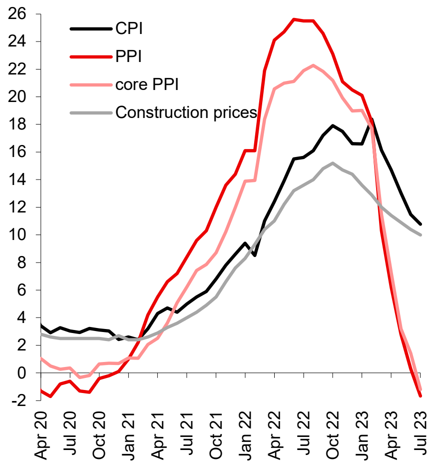
We expect that next months could bring rebound in monthly PPI growth rates on some zloty weakening and recovery in oil prices but this should still provide deeply negative annual PPI growth rates likely till 2Q24. This should also be line with further CPI disinflation.

Wages in corporate sector, % y/y



Source: GUS, Santander

PPI and other inflation measures, % y/y



Source: GUS, Santander