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Economic Comment

Output and PPI decline, strong wages and confidence

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Industrial production fell by 2.0% y/y in August (below expectations), but July was revised upwards. The rebound in the seasonally adjusted data, +0.6% m/m, was quite modest. Employment in the corporate sector stopped growing y/y (vs. +0.1% y/y expectations) and in the manufacturing sector itself fell markedly. At the same time, wages continued their solid growth (11.9% y/y) and even accelerated in many categories. September's consumer confidence survey indicated further improvement. The series of six PPI declines in m/m terms was interrupted by a rebound in oil prices. The data favour our scenario of an economic rebound in the course of 2H23 and in 2024 pulled by private consumption.

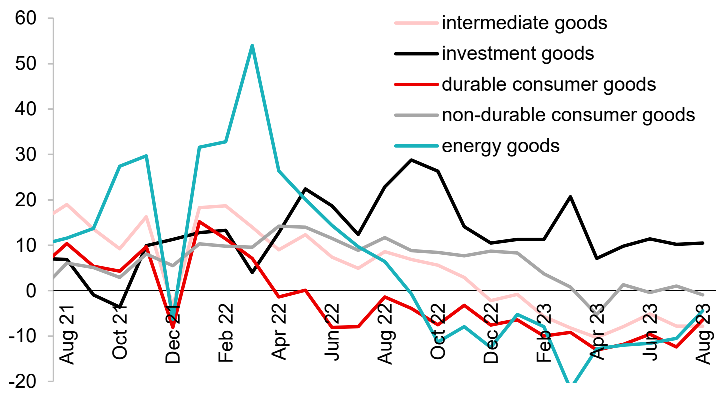
Industrial output

In August Polish industrial output growth was -2.0% y/y, which is a slightly better print than the upwardly revised -2.3% y/y from July, but still a negative surprise (market consensus -1.7% y/y, our estimate -1.4% y/y). In seasonally adjusted terms, industrial output was up 0.6% m/m, so not enough to cover the July 1.0% drop.

Investment goods kept rising at double digit pace (+10.5% y/y), consumer durables were still down y/y, but the August -6.4% y/y print was actually the best since January, while the usual increase due to seasonal effects was stronger in the previous years. In contrast, the result for consumer durables, -7.8% y/y, was in line with the previous reading and with the average 2Q growth. Consumer non-durables continued to move close to 0% y/y.

Business sentiment indicators give diverging signals when it comes to the outlook of industrial output (weak PMI, but recovery seen in GUS industrial indicators regarding expected output) and European trade partners seem to have trouble restarting their economies.

Production in main industrial groupings, %y/y



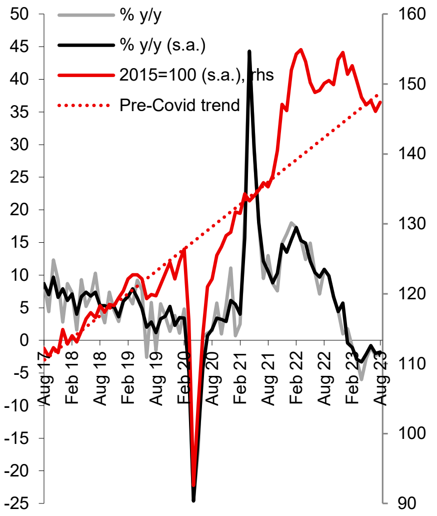
Source: GUS, Santander

We assume that the Polish industrial sector may move towards zero y/y output growth from now on (note the next headline reading will be negatively affected by working day difference) but fail to reach positive levels already this year.

Employment further down, wages in line with forecasts

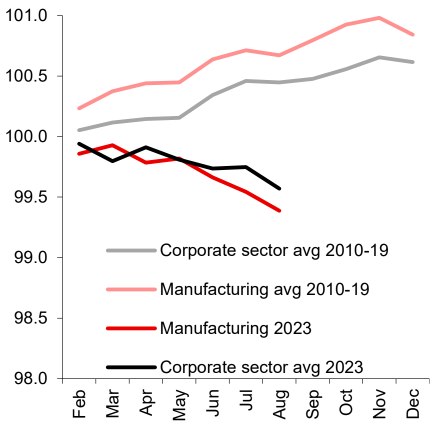
August employment proved weaker than expected and decelerated to 0.0% y/y from 0.1% y/y, while expectations were set at 0.1% y/y. In monthly terms, the number of FTEs declined by 11.6k (-0.2% m/m). This was the weakest August in years, with a clear underperformance in manufacturing, which shed 8.1k jobs. However, other sectors were also rather weak.

Industrial production in Poland



Source: GUS, NBP, Santander

Corporate employment change, January = 100



Source: GUS, Santander

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Especially construction gathers attention, as it saw a decline by 1.0k jobs, while usually August witnesses higher employment in this sector.

We are expecting the demand for labour to improve further in the year, as we expect the economy to rebound. Some labour demand indicators have already rebounded, e.g. number of job offers or Manpower indicator. However, employment is likely to suffer for a couple months more.

Wages accelerated in August to 11.9% y/y from 10.4% y/y in July, roughly in line with expectations (we and the market at 11.8% y/y). Wages ex mining accelerated to 11.9% y/y from 10.8% y/y and wages in services to 11.8% y/y from 11.6% y/y. In general, wage growth in most sectors was slightly stronger than typically. We are expecting wage growth to remain in double-digit territory in the upcoming quarters, supported by economic rebound, low unemployment, still relatively high price growth and high rise in minimum wage in 2024. Wages will be improving in real terms (+1.6% y/y in August, highest since February 2022), and this will be a supportive factor for consumption in 2H23 and 2024.

PPI inflation down further, although oil prices rise

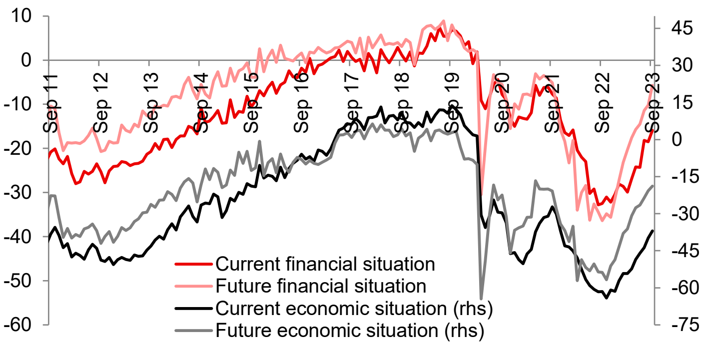
PPI inflation eased in August to -2.8% y/y from -2.1% y/y in July (revised data). On a monthly basis, output prices rose by 0.1%, but this was mainly due to a strong increase in the coke and refined petroleum products production (6.0% m/m), which was mainly the upshot of rising global oil prices. We estimate that prices continued to decline in the other categories, including the core categories by 0.5% m/m. We expect a further decline in PPI inflation in the coming months, with the rise in global oil prices and the weakening of the zloty slowing this downward trend.

Construction output price growth declined to 9.8% y/y in August from 10.0% y/y in July, but prices continued to rise on a monthly basis (0.8% m/m).

Consumers are becoming more confident

Consumer confidence improved in September, with the current indicator rising by 2pts to -20.3pts, and the leading indicator by 0.9pts to -9.4pts. The greatest increases were observed in the indicators of the future financial situation of the household (+4.5pts, to -5.7pts) and of the current economic situation of the country (+2.9pts, to -37.0pts). However, notable decreases were recorded in the indicators of future money saving (-1.6pts, to -4.1pts), future unemployment (-0.6pts, to -9.0pts), and current major purchases (-2.2pts, to -24.0pts).

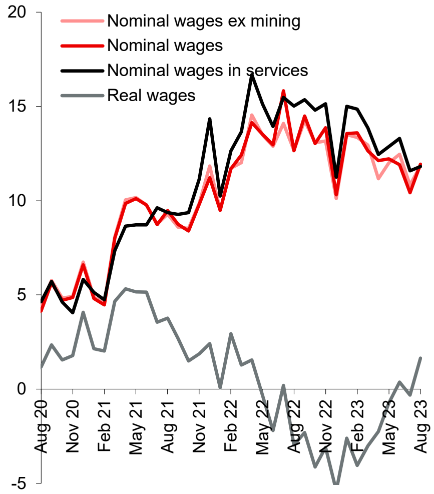
Consumer sentiment in Poland, selected components, pts



Source: GUS, Santander

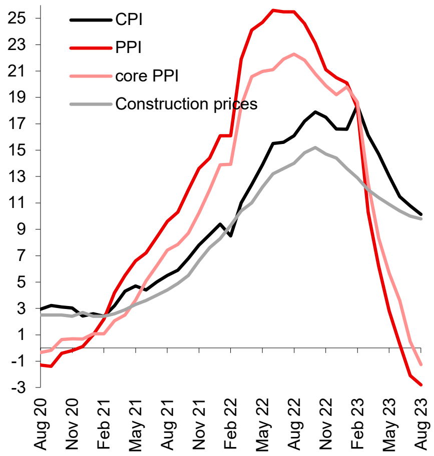
While the newest data support our forecast of an economic recovery driven by private consumption in the coming quarters, mainly due to the promising continued increases in the indicators of household's financial situation and of the country's economic condition, the mentioned decreases in some categories recorded this month - if they continue – could offer additional risks to the expected recovery in consumption.

Wages in the corporate sector, % y/y



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander

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