19 October 2023

Economic Comment

Production is back at the trend

Bartosz Białas, tel. 517 881 807, bartosz.bialas@santander.pl
Marcin Luziński, tel. 510 027 662, marcin.luzinski@santander.pl
Grzegorz Ogonek, tel. 609 224 857, grzegorz.ogonek@santander.pl

In September Polish industrial output growth was -3.1% y/y, compared to -2.7% y/y market expectations and our estimate of -4.6% y/y. The seasonally adjusted data showed a rise by 0.9% m/m, coming after +0.6% m/m in August. This is the first time this year that there were two positive readings in a row. The data allow us to say that there are already some signs of a recovery. It looks like the next two headline readings might be already close to zero y/y.

Employment increased by 0.0% y/y in September, with some improvement seen in manufacturing and weakness in trade. Wages slowed to 10.3% y/y in September from 11.9% y/y in August and were weaker than expectations. In real terms, wages rose by 2.0% y/y. We believe wage dynamics will remain in double digits and labour demand will gradually improve in the months to come, supporting our forecast of a rebound in private consumption.

The PPI inflation rate rose for the first time since June 2022, albeit modestly: to -2.8% y/y from -2.9% y/y. Output prices rose on a monthly basis and we believe a similar trend may continue in the months ahead.

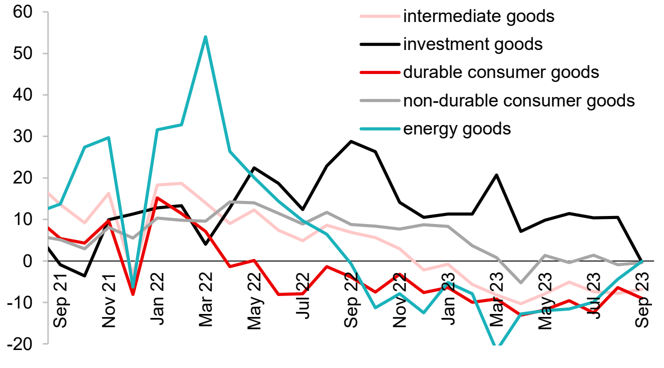
Two consecutive monthly increases of industrial output

In September Polish industrial output growth was -3.1% y/y, compared to -2.7% y/y market expectations and our estimate of -4.6% y/y. The previous result was revised to -1.9% y/y from -2.0%. In October there were fewer working days y/y – thus the lower headline does not mean a deterioration. In fact in m/m terms the seasonally adjusted data showed a rise by 0.9%, coming after +0.6% in August. This is the first time this year that there were two positive readings in a row. The seasonally adjusted output growth was at -0.9% y/y in September, up from -1.8% y/y in August.

A breakdown of the data by main industrial groupings showed a pretty good result for consumer non-durables (-0.4% y/y vs. -0.9% previously), energy (-0.1% y/y, improving from -4.4%) and intermediate goods (-6.9% y/y, previously -7.8%), a neutral, i.e. not suggestive of a rebound, reading for consumer durables and a slowdown in capital goods (from readings of around 10% y/y to -0.3% y/y, albeit partly due to a base effect).

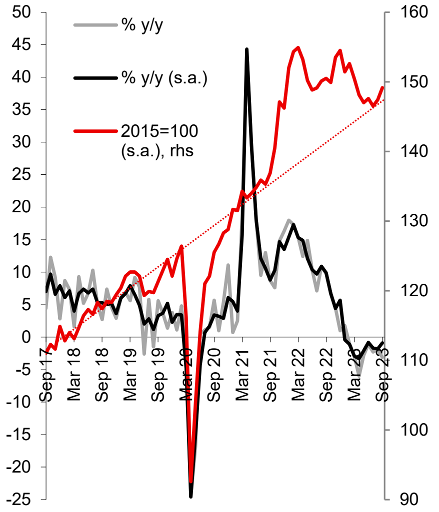
The production of chemicals did relatively well in September (this category increased the most its contribution to total output growth out of all manufacturing industries), as well as beverages, pharmaceuticals, rubber and plastic products. On the other hand, the results for the production of autos, electrical appliances, machinery and equipment were unusually low relative to the seasonal pattern.

Production in main industrial groupings, %y/y



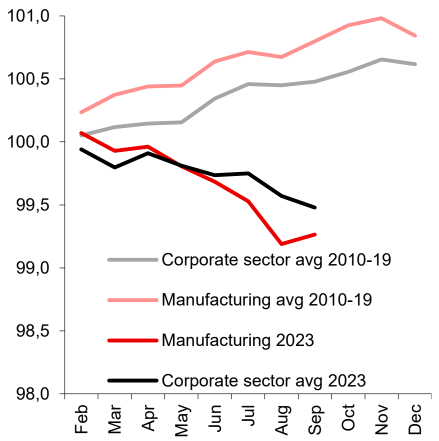
Source: GUS, Santander

Polish industrial production



Source: GUS, Santander

Employment growth, January = 100



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas +48 517 881 807
Cezary Chrapek, CFA +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

The data allow us to say that there are already some signs of a recovery in industry. It also looks like the next two headline readings might be already close to zero y/y (the last positive print was in January 2023). Next year the industrial sector should already be contributing positively to economic growth.

Labour market stable

Employment growth remained at 0.0% y/y in September, in line with market expectations and slightly above our forecast (-0.1% y/y). On a monthly basis, the number of FTEs (full-time equivalent jobs) fell by 6k (-0.1% m/m). Minimal changes in employment were recorded in most sectors, with the largest decrease of 4k FTEs occurring in trade. At the same time, in manufacturing, the number of FTEs increased by 1k, after months of clear underperformance. This is a positive sign for the sector's prospects, especially in the context of today's good manufacturing data. We estimate that employment dynamics will be zero or slightly negative in the coming months. Nevertheless, a rebound in labour demand should come with the economic recovery. As a result, we are likely to see positive growth rates again in 2024.

Wage growth in nominal terms slowed in September to 10.3% y/y from 11.9% y/y in August, below both our expectations (10.8% y/y) and the market consensus (10.7% y/y). Real wage growth, however, remained positive at 2.0% y/y. Wages excluding the mining sector slowed to 10.6% y/y from 11.9% y/y and service sector wages to 11.1% y/y from 11.8% y/y. The slowdown in overall wage growth is mainly the result of a lower growth rate in manufacturing (10.3% y/y vs. 11.7% y/y), which, however, was not helped by the effect of a lower number of working days and the high October 2022 base. More worrying is the weaker growth rate in trade (9.3% y/y from 10.9% y/y), which also goes hand in hand with weaker employment data in this sector.

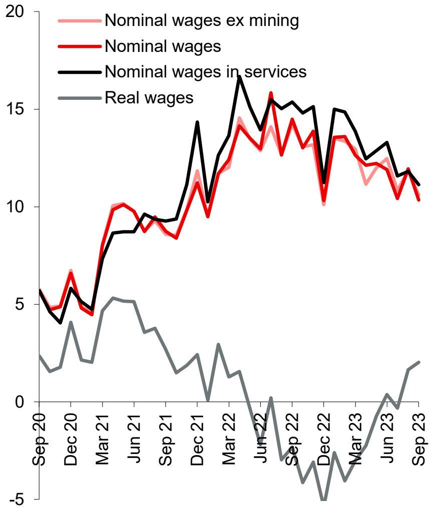
Nevertheless, in most sectors, the behaviour of wages did not deviate significantly from the seasonal patterns observed in recent years. We think that wage growth will maintain a double-digit pace in the coming months and will be higher than the inflation rate in 2024, supporting consumption and our forecast of an economic rebound.

PPI up for the first time in a year

PPI inflation climbed by a notch in September, to -2.8% y/y from -2.9% y/y in August (revised data). This was the first increase in the gauge since June 2022. In monthly terms prices advanced by 0.3% m/m. In manufacturing alone prices went up by 0.3% m/m, with the strongest rise recorded in other transport equipment (1.0% m/m) and the weakest in coke and petroleum (decline by 1.4% m/m, despite a strong rise in oil prices and weaker zloty). We estimate that also core PPI went up by 0.3% m/m, posting the first positive result since January. While prices in industry were somewhat affected by the weaker zloty, it seems that the downward tendency in producer prices is coming to an end, which could mean that the disinflation process will be slowing down in the months to come.

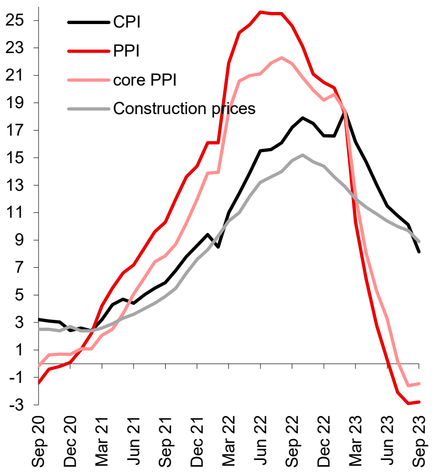
Prices in construction rose by 8.9% y/y in September, after 9.7% y/y in August. Despite the fall in the annual index, monthly price growth has stabilised at 0.7% m/m for three months in a row. The ongoing improvement in the construction market may mean that price momentum will no longer weaken.

Wage growth, % y/y



Source: GUS, Santander

Main inflation measures, % y/y



Source: GUS, Santander

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.