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Economic Comment

Further recovery, high wage growth and PPI drop

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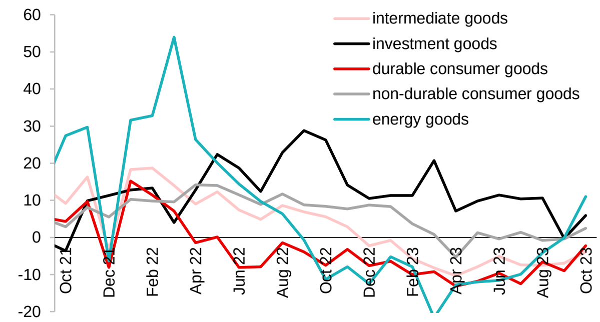
Industrial production increased by 1.6% y/y in October, with a relatively large contribution from energy utilities. Production after adjustment for seasonal effects was almost stable on a m/m basis (-0.1%) after a significant rebound in the previous two months. October's output data look decent and do not undermine the recovery that has already emerged in previous readings. Average employment in the corporate sector fell by 0.1% y/y in October after holding at zero for two months. As the recovery progresses the labour demand will likely strengthen resulting in a return of the employment growth rate to positive figures over the course of 2024. Wage growth increased in October to 12.8% y/y from 10.3% y/y in September, beating expectations, although this was to large extent elevated by mining bonus payments. In real terms, this represents wage growth of 5.9% y/y, the strongest since February 2019. PPI inflation eased to -4.1% y/y in October from -2.7% y/y in September and may still fall in the coming months.

Industrial production strengthened by electricity

Polish industrial output rose by 1.6% y/y in October, which is a bit below the market forecast (1.7%) and above our estimate (0.7%). The rise from September's -3.3% y/y (downside revision from -3.1%) was caused by almost entirely by working day differences – the measure corrected for seasonal and calendar effects showed an output growth of -0.8% y/y in October vs. -0.9% y/y in September. In m/m s.a. terms production was almost stable (-0.1%) after a significant 0.9% rebound in both August and September.

What surprised us the most was the large increase in output of utility companies, +17.2% y/y and +30.3% m/m, which alone boosted the headline production growth by over 1pp. On the other hand, manufacturing output rose by 0.3% y/y, which we see as a disappointing result - given the working day support it received – even if it is the first positive reading since January this year.

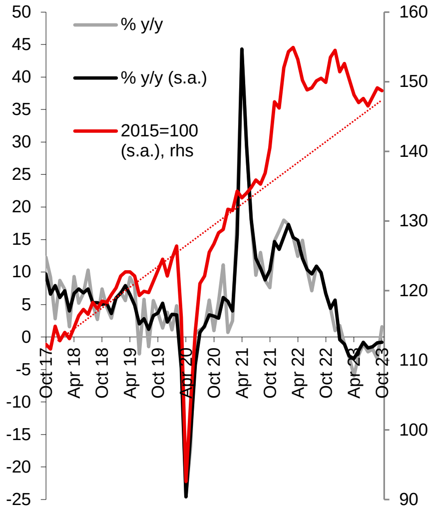
Production by main industrial groupings, %y/y



Source: GUS, Santander

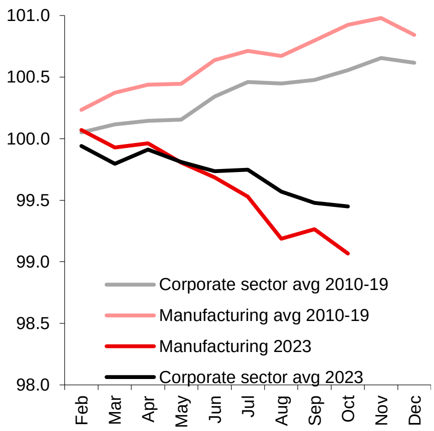
Energy-related goods showed an 11.0% y/y rebound in October (previously -0.1% y/y), consumer non-durables also grew (+2.5% y/y, previously -0.4% y/y) and capital goods rebounded (+5.9% y/y, previously -0.3% y/y, but previously averaged 11.6% y/y between January and August). Consumer durables remained in the red (-2.2% y/y after September's -9.0% y/y, which is nevertheless the best performance since last August) and so were supplies (-3.9% y/y, previously -6.9% y/y, the best since January this year). The production of clothing, metals, pharmaceuticals, printing and mineral products looked particularly good in October. In contrast, beverage and chemical production, which had surprised upwards in the previous two months, negatively diverged from the seasonal pattern this time. The manufacturing is still being dragged down by weak results in manufacturing of electrical equipment.

Industrial output in Poland



Source: GUS, NBP, Santander

Employment in the corporate sector, January = 100



Source: GUS, Santander

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The October production data look decent and do not undermine the recovery that showed up already in the previous prints. We should see another strong positive reading in November and average 2024 growth may be close to 5% or even higher (compared to around -1.5% expected in 2023). At the same time we keep monitoring the manufacturing output for signs of competitiveness issues - linked to PLN strength, growing wages and relatively high energy costs - which pose downside risk to our forecasts for the industrial sector.

Employment in manufacturing back to falls

October employment declined by 0.1% y/y against our expectations of no change. In monthly terms, the number of full-time equivalents (FTE) decreased by 2k (0.0% m/m). After a month of stabilisation, employment in manufacturing resumed its decline, losing 4.7k jobs. The negative effect of this decline on the overall gauge was somewhat reduced by increases in transport and storage FTEs (+2k) as well as in professional and administrative services. Most other sectors recorded either marginal or no changes. In the last months of the year employment growth may remain slightly below 0% y/y, but as the economy will rebound, labour demand should improve, bring growth back into positive territory.

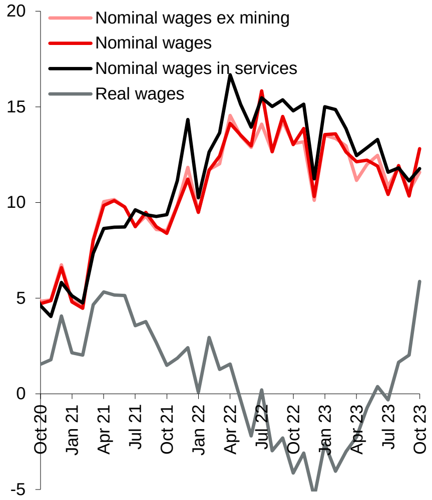
Wage growth accelerated in October to 12.8% y/y from 10.3% y/y in September and above our and the market's expectations of 12.0% y/y. In real terms, this translates to an increase by 5.9% y/y, 0.8 pp above our estimate. The better-than-expected result was mainly the effect of greater contribution from the mining sector, where wages grew by 61.2% y/y due to significant one-off bonuses and the effect of relatively low statistical base. Wage growth in other sectors was in line with our expectations, with our estimate of wages ex-mining at 11.6% y/y and wages in services at 11.8% y/y. Over the next months, wages should continue to grow at a double-digit pace, staying well above the inflation rate in 2024, which should further stimulate a rebound in consumption.

PPI inflation lower

PPI inflation fell to -4.1% y/y in October from -2.7% y/y in September (data revised upwards by 0.1 percentage points), against our forecast of -4.5% y/y and market expectations of -3.7% y/y. On a monthly basis, industrial prices fell by 0.5% m/m and this decline was mainly driven by lower commodity prices and the strengthening of the zloty: in mining, prices fell by 1.3% m/m and in manufacturing by 0.6% m/m, including coke and oil processing by 3.5% m/m. The core PPI declined according to our calculations to -2.7% y/y from -1.7% y/y in September. In our view, PPI may still decline slightly in the coming months, after which it should return to an upward trend as domestic and European economic conditions improve.

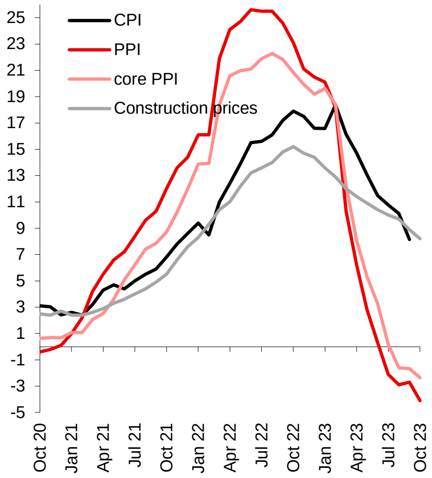
Construction prices rose by 8.2% y/y in October after 8.9% y/y in September. The monthly growth rate eased slightly to 0.6% m/m from 0.7% m/m a month earlier, so still remains relatively high. The improvement in the construction market may mean, in our view, that no further significant slowdown in price growth in this market is to be expected.

Wages in the corporate sector, %y/y



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander