20 March 2024

Economic Comment

February numbers surprise to the upside

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February brought a solid portion of data from Polish economy showing stronger than expected industrial output and wages. Wage growth accelerated to 12.9% y/y from 12.8% y/y, with real rate up to 9.8% y/y from 8.8% y/y in January, which is the highest print since 90s. Employment declined in February by 0.2% y/y, in line with forecasts. For the upcoming months, we expect a stable employment and double digit wage growth amid expected economic recovery. Consumer confidence indicators improved slightly. This should support our view for accelerating private consumption to 2.8% y/y in 1Q and 3.4% in the entire year.

Industrial output rose by 3.3% y/y vs. upwardly revised 2.5% y/y (from 1.6% y/y) in January. PPI increased a bit, but due to a strong revision in January numbers, it was markedly below forecasts. PPI may still contribute to a decline in CPI.

All in all today's data support our view for GDP growth acceleration, give little reason for the majority of the Council to shift bias to more dovish and back our view that the first rate cut will happen in mid-2025.

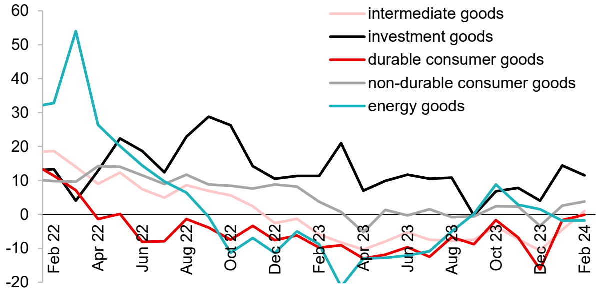
Solid industrial output rise in February, thanks to upgrade of January print

In February, Polish industrial output rose by 3.3% y/y, beating market consensus at 2.5% y/y and our estimate of 1.7% y/y. The previous print was revised up from 1.6% y/y to 2.9% y/y mostly on stronger utilities, but also manufacturing production. The revision of January data explains to a large extent the positive February surprise. Manufacturing output accelerated to 3.8% y/y in February from 2.6% in January and -5.3% y/y in December. In seasonally adjusted terms total production was down 0.1% m/m, but coming after a significant rise in January, which we assume given the upside revision of January non-seasonally adjusted data. Annual seasonally-adjusted output growth was +1.1% y/y which is the strongest print since December 2022.

Note that the January print, now shown 1.3pp higher than initially reported, was a downside surprise at the time of the release, but after the revision it is close to the consensus shaped a month ago. We highlighted back then that the print would be alright were it not for the intriguing decline in contribution of one category – the one that has actually been revised higher today. January utilities output growth was moved from 1.5% y/y to 9.5% y/y. Also, the upside revision of January utilities output corresponds to the downside correction to the PPI inflation component related to utilities. To put it in other words: the GUS has revised downwards its estimate of producer prices, shifting the real growth upwards.

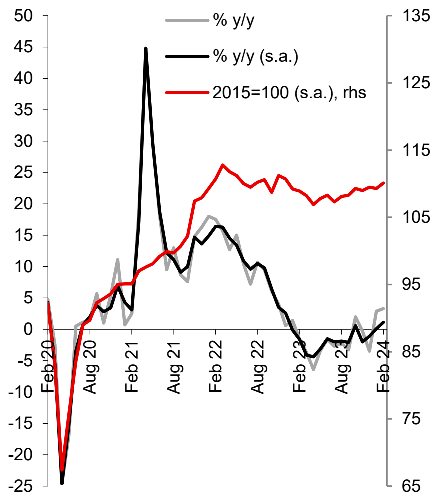
The categories that contributed the most to the further acceleration of output in February were mineral, plastic and wood products, but many other industries also showed improvement but less pronounced.

Production in Poland in main industrial groupings, %y/y



Source: GUS, Santander

Industrial production in Poland



Source: GUS, Santander

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In February, investment goods production was up 11.5% y/y, consumer non-durables rose 3.8% y/y and intermediate goods 1.0% y/y (in case of the latter this is the best result since November 2022). Consumer durables showed an unimpressive at first sight print of -0.1% y/y in February, but in fact this is the strongest result since May 2022.

Comparing to the usual seasonal pattern of m/m output changes, in February tobacco products, apparel, mineral products and electronic equipment looked strong. Relatively low growth was recorded in drinks, pharmaceuticals, transport equipment.

The large January production data revision puts upside bias to our 2024 output growth forecast of 3%.

Employment in line with expectations

Employment declined in February by 0.2% y/y, in line with forecasts. In monthly terms, the corporate sector has shed 4.8k jobs (-0.1% m/m), with most considerable losses in construction (-1.3k, -0.3% m/m) and administrative/supporting activities (-5.3k, -1.4% m/m). In latter category, we would guess this could have been the effect of a strong rise in minimum wages in January (a major share of employees in this sector are paid the minimum wage).

While it is typical that employment growth is weak in February, the labour market is clearly feeling some negative effect of weaker economic growth in 2023. Still, as we are expecting the economic momentum to gain speed, we think the employment demand will revive soon.

However, we are not expecting major gains in employment, given that the unemployment rate is already very low and the pool of free labour force is low.

Wages surprise upwards – again

Wages clearly surprised to the upside and accelerated to 12.9% y/y from 12.8% y/y in January, as compared to market consensus at 11.5% y/y and our call at 12.0% y/y. This was a second strong surprise in a row.

While wages in mining were slightly stronger than we had assumed, the upward surprise stemmed mainly from manufacturing, which saw a jump by 1.7% m/m, vs average February growth in 2016-2023 at 0.0% m/m and trade, which recorded +2.9% m/m vs average at 0.2% m/m. Strong performance was also delivered in construction, and information/communication.

Wages ex mining accelerated to 13.0% y/y from 12.7% y/y in January. Wages in services advanced to 12.3% y/y from 12.0% y/y, but no major momentum is visible in monthly growth rate, mainly due to a weak results in transport (-1.8% m/m). Note however that this sector witnessed a major jump in wages in January, so we may be dealing with a shift in payments.

We are tempted to say that the strong momentum in February is an effect of minimum wage hike in January. However, the behaviour of particular sectors sends mixed signals – restaurants and hotels, which are most dependent on minimum wage, showed a rather moderate growth rate, while construction and administrative/supporting activities were quite robust.

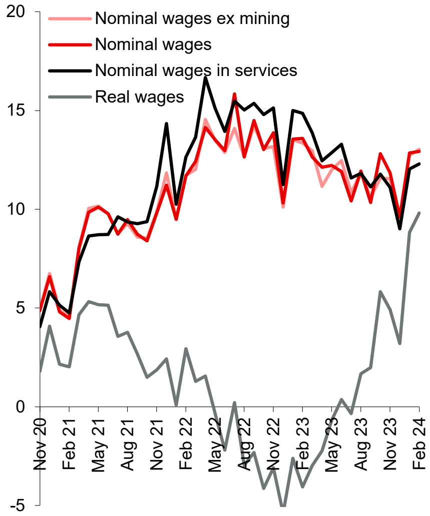
Real wage growth accelerated to 9.8% y/y from 8.8% y/y in January, which is the highest print since 90s. We are expecting the wage growth to remain strong this year, given reviving economy and tight labour market

PPI up m/m but from more negative annual dynamics after revision

Producer price growth accelerated to -10.1% y/y from downwardly revised -10.6% y/y in January, which was below market consensus and our estimate assuming recovery to -8.7% y/y from -9% y/y. Key factor behind downside surprise versus the consensus was the revision of January data in all categories, with largest for utilities (electricity, gas production), by -6.7pp, though with biggest negative contribution from manufacturing (-0.9pp). The monthly PPI growth in February alone was +0.1% m/m, 0.2pp above our assumptions with larger monthly increase in manufacturing and utilities and it was first monthly growth since last September. Core PPI inflation increased to -10.0% y/y from -10.5% y/y.

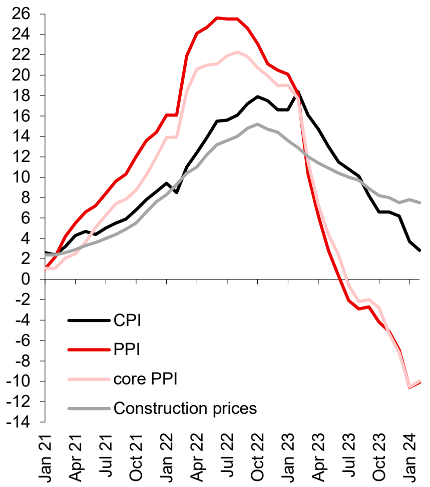
We expect a gradual recovery in annual PPI growth in the coming months but positive rate will likely be reached only at the end of the year. Producer price growth will likely remain slightly above -10% y/y in the next 2-3 month and a gradual acceleration should follow mainly on low base effect with assumed strong zloty and stable oil prices contributing negatively to monthly PPI dynamics in 1H. We presume annual PPI growth for the whole year at ca. -6% y/y and 2.5% y/y in 2025.

Wages, % y/y



Source: GUS, Santander

Main inflation measures, % y/y



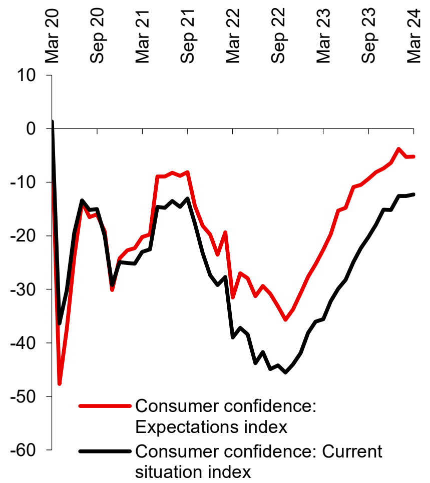
Source: GUS, Santander

Gradual improvement of consumer sentiment

In March, confidence of Polish consumers measured by the aggregate index of current situation improved slightly, rising 0.3 pts to -12.3 pts. Aggregate expectations also improved, although only marginally, by 0.1 pts to -5.2 pts. Still, strengthening of both the indices meant that they climbed further above their long term averages. The current situation index is now exceeding its long term average by 3.9 pts, while the expectations index by 13.4 pts. Moreover, the components of the survey showed that Polish consumers' confidence in their current financial situation is steadily improving, as the index measuring it strengthened in March by 1.5 pts, the most of all the components. Improvements were also registered by the indices of major purchases (+0.4 pts) and future economic expectations (+0.9 pts). The main reason for the small size of the increase in the overall indicator was the current economic situation index, which fell 1.2 pts.

All in all, the newest survey shows that most measures of consumer confidence keep improving and, given the strong wage growth the increases in social transfers, should continue to do so in the following months. This in turn should support consumption and further recovery of the Polish economy.

Consumer confidence, pts



Source: GUS, Santander

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