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Economic Comment

Industrial output much stronger than expected

Bartosz Białas, tel. +48 517 881 807, bartosz.bialas@santander.pl
Marcin Luziński, tel. +48 510 027 662, marcin.luzinski@santander.pl
Grzegorz Ogonek, tel. +48 609 224 857, grzegorz.ogonek@santander.pl

October industrial production was much stronger than expected, posting 4.7% y/y versus our and median expectations slightly below 2% y/y. Production was supported by the positive effect of working days (1 more than a year earlier), but seasonally-adjusted output was also strong and jumped by as much as 4.6% m/m, the most since April. The positive surprise in industrial production comes after a series of disappointments and is a much needed spark of hope about Polish economic outlook. the October reading confirms that the situation in the Polish industry is not as bad as one might have thought after the disappointment with the data from August and September.

The data from the labour market were roughly in line with expectations, a slight slowdown in wage growth was mainly due to the base effect in mining, with an acceleration in other sectors, including services. From January 2025, the wage growth rate is likely to permanently fall to single-digit levels, and will average 7-8% y/y over the whole year. Nevertheless, such wage growth will continue to support private consumption and economic growth. Employment continued to decline, with the largest m/m reductions recorded in manufacturing (-2.7k full-time equivalents), professional activity (-2.7k) and transport (-1.6k).

Industrial output finally surprised to the upside

October industrial production was much stronger than expected, posting 4.7% y/y versus our and median expectations slightly below 2% y/y. The September print was revised down, to -0.4% y/y from -0.3% y/y.

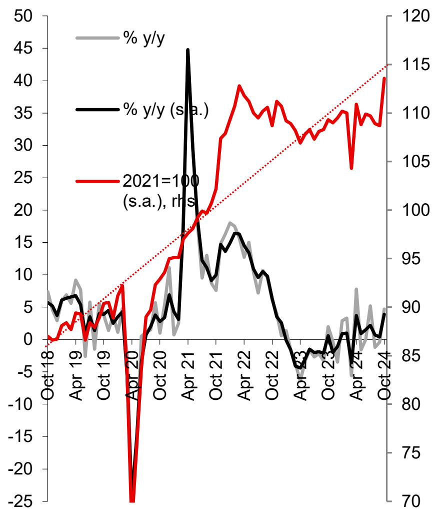
Production was supported by the positive effect of working days (1 more than a year earlier), but seasonally-adjusted output was also strong and jumped by as much as 4.6% m/m, the most since April. The seasonally-adjusted production index jumped to its highest level in history (the previous peak was in March 2022), but it was a bit short of returning to the pre-pandemic trend.

The positive surprise in industrial production comes after a series of disappointments and is a much needed spark of hope about Polish economic outlook. While we see some apparent one-offs in the detailed numbers (e.g. manufacture of clothing up by +17.6% y/y after declining by 8.4% y/y in September), the improvement was visible in many sectors, of which, chemicals, metals, computers, machinery, cars / other transport equipment, and furniture deserve attention, apart from clothing.

Better results were particularly noticeable in the case of export industries, where production increased by 5.0% y/y, after a 2.3% y/y decline in September. However, industries focused on domestic demand also recorded an acceleration, to 6.4% y/y from 2.0% y/y. In the case of product groupings, the largest improvement was visible in durable consumer goods: to 11.9% y/y from 2.3% y/y, and slightly smaller in case of investment goods (+5.4% y/y from -1.2% y/y) and intermediate goods (+4.0% y/y from -2.6% y/y).

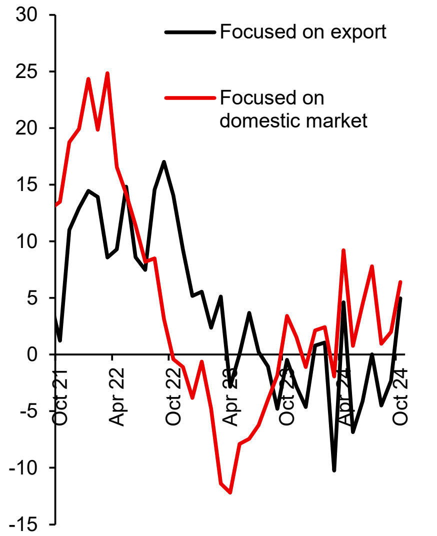
As we have pointed out before, this year's data on industrial production is much more volatile than before. Therefore, we will not be surprised if we see a weaker result again in November, especially since the number of working days will be 2 less than a year ago. However, the October reading confirms that the situation in the Polish industry is not as bad as one might have thought after the disappointment with the data from August and September. In addition, while the Polish manufacturing PMI index and actual production are far from being perfectly aligned, the sentiment among industrial companies has improved quite significantly in recent months, which was not reflected in the real data until the October reading.

Industrial output in Poland



Source: GUS, Santander

Industrial output – sectors focused on export and domestic market, % y/y



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

Wage growth gradually declines

Wage growth in the corporate sector declined from 10.3% y/y in September to 10.2% y/y in October, a bit below the consensus and our forecasts. Real wage growth also declined slightly, from 5.2% y/y to 5.0% y/y.

The decline in the pace of wage growth as well as the difference from our forecast was caused mainly by wage dynamics in mining, which fell from 17.5% y/y to -11.7% y/y, c. 4pp below our estimate. The decline resulted mostly from high statistical base last year, caused by payments of rewards in some of the mining companies.

Wage growth in other sectors was close to our forecasts. According to our calculations, wages ex mining rose 11.0% y/y after 10.1% y/y in September, and wages in services rose 10.4% y/y after 10.0% y/y.

Although wage growth remains solid, October may be the last or one of the last months when it reaches double-digit levels. We expect to see wage dynamics above 10% also in December, though this will depend on the size of rewards and bonuses paid in that month. Starting from January 2025, wage growth will likely consistently fall below 10% and should average 7-8% over the whole year. Nonetheless, such wage dynamics should still offer support to consumption and economic growth.

Employment dynamics remain stable slightly below zero

The growth rate of employment in the corporate sector remained at -0.5% y/y in October, unchanged from September, in line with consensus and slightly above our estimate. Month-on-month, the number of full-time-equivalents fell by 4k, i.e. by 1.5k less than we expected. The biggest reductions were recorded in manufacturing (-2.7k FTEs), professional activities (-2.7k), and transport (-1.6k).

Employment dynamics will likely remain at their current level until the end of the year. However, at the beginning of 2025, employment growth should rebound above 0% y/y and gradually improve over the year, stimulated by the expected economic expansion.

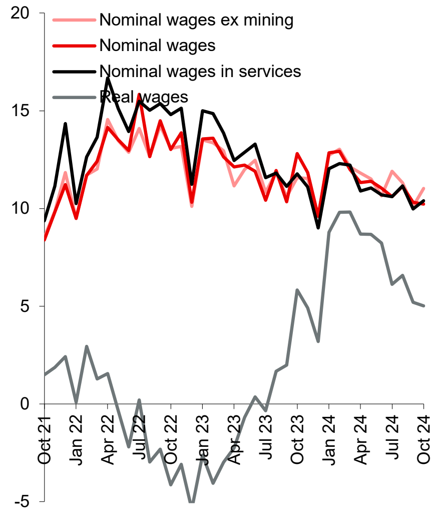
Annual PPI inflation is rising, but still remains deep below zero

PPI inflation was higher than expected in October, moving to -5.2% y/y from -6.2% y/y (revised from -6.3%) in September. The market consensus and our estimates were at -5.6% y/y. This is the first upside surprise since June and only the second in the last 13 releases. Manufacturing prices were down 4.4% y/y (up 0.5% m/m) which makes it the second smallest decline since the middle of 2023. The October weakening of the zloty and the rise of the Brent oil price contributed to the rise of PPI inflation.

The second strong monthly rise in a row in agricultural prices

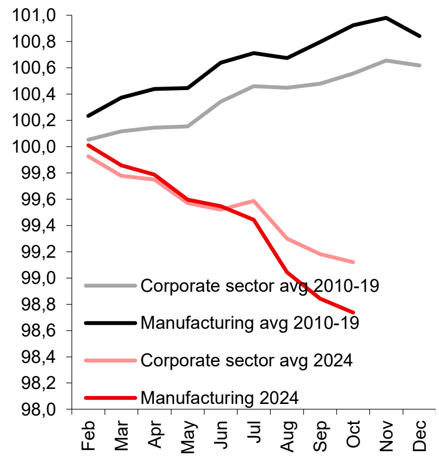
Prices of agricultural products increased by 1.9% m/m and 2.1% y/y in October. On an annual basis, this was the first positive growth rate April 2023 and, in our opinion, the next readings will remain above zero as well. On a monthly basis, it was the second strong increase in a row. The prices of cereals, cattle and milk increased. In our opinion, higher purchase prices of agricultural products will translate into an acceleration of food prices in the CPI and will be conducive to maintaining this index at an elevated level.

Wage growth, % y/y



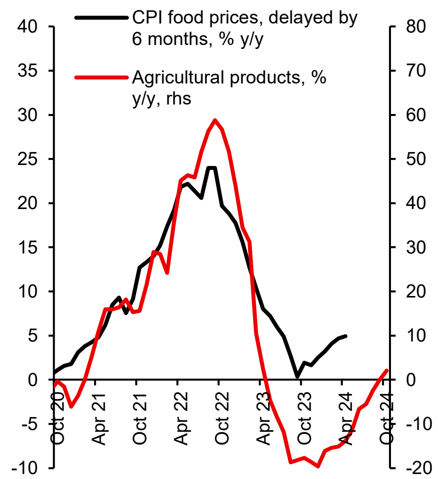
Source: GUS, Santander

Employment, January = 100



Source: GUS, Santander

Prices of agricultural products vs retail food prices, % 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.