CEE Economics

Poland

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Economic Comment

Mixed data for June

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Today's economic data was mixed. Industrial production surprised to the downside, falling by 0.1% y/y, while the market was expecting a 1.4% y/y increase and we thought a 0.9% y/y increase was more likely. Adjusted for seasonal effects, output growth was -0.5% m/m, which was the first decline since February. In contrast, the figures describing construction production and the labour market were better than expected. Construction output rose by 2.2% y/y in June, following a 2.9% y/y decline in May. This result clearly exceeded the consensus (-1.2% y/y) and our forecast (-2.1% y/y). In seasonally adjusted terms, production grew by 3.2% m/m - the strongest since December 2024. Employment in June fell by 0.8% y/y, in line with forecasts, but wages accelerated to 9.0% y/y.

We assume that the Polish economy will continue to grow at 3%+ y/y, with some acceleration driven by an improvement in investment. Although we count on a slight improvement in industry, it is worth bearing in mind that the Polish economy has been able to accelerate in recent quarters despite the weak situation in this sector.

Industrial output fell despite expectations for a rise

In June, Polish industrial output surprised to the downside by falling 0.1% y/y while the market had expected a rise by 1.4% y/y and we thought +0.9% y/y was more likely. The seasonally adjusted growth was -0.5% m/m and was the first decline since February. The previous reading was revised a bit higher, from 3.9% y/y to 4.0% y/y. The slowdown of production in June exceeded the statistical effect of working days (its impact was neutral in June and positive in May).

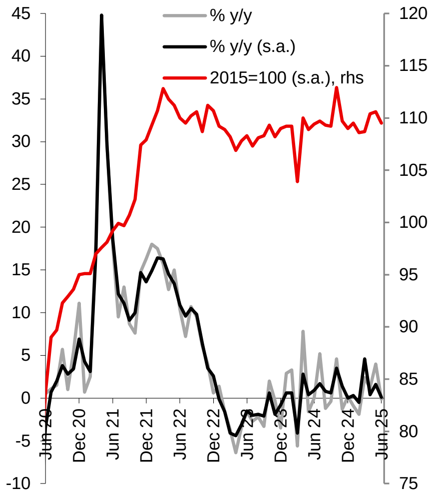
Production of investment goods continued to grow y/y (+5.0%) but was weaker than in the previous three months. Consumer non-durables growth was also the weakest since February, but still marginally positive (+0.1% y/y). Output of intermediate goods was down 1.8% y/y and production of durable consumer goods shrank by 2.4% y/y. Cars and car parts production was the industry with one of the highest growth rates in June, up 5.9% y/y, IT and optical equipment was up 4.3% y/y. On the other hand other transport equipment production was down 7.4% y/y and the output of chemical products dropped 7.7% y/y. If one divides the industries by their exposure to foreign demand, those focused on production for export showed a growth of 1.3% y/y in June - the fourth positive reading in a row although the weakest so far. The predominantly domestically-focused industries showed a 2.4% y/y decline in output, which the first negative growth rate since March 2024. Foodstuffs production contributed significantly to this, decelerating from 5.3% y/y in May to 1.0% in June.

Survey-based business sentiment indicators for industry gave a divergent assessment of the sector's operating conditions in June - a further large decline in the PMI was accompanied by a reasonably good performance of the ESI index, with an improvement in new orders and the highest level of the current production trend index in more than three years. We expect industrial production growth to register mild positive growth in all remaining months of the year.

Construction surprised to the upside

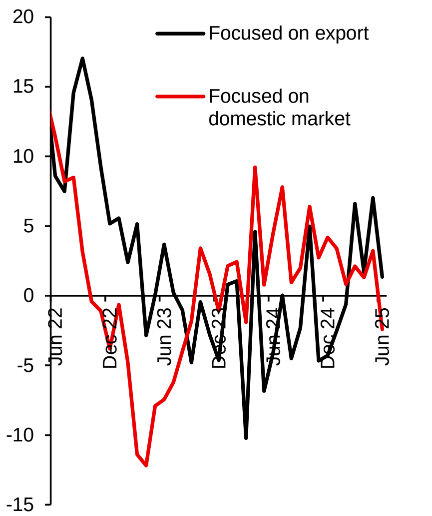
Construction output expanded by 2.2% y/y in June after declining by 2.9% y/y in May. This figure has clearly beaten the consensus (-1.2% y/y) and our forecast (-2.1% y/y). In seasonally-adjusted terms, output advanced by 3.2% m/m – the strongest since December 2024.

Industrial production in Poland



Source: GUS, Santander

Industrial output breakdown by exposure to foreign demand, % y/y



Source: GUS, Santander

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While it would be convenient to say that we can already see results of accelerating EU funds spending, the detailed data showed that the improvement occurred in construction of building and in specialised works, while civil engineering – which we associate with EU funds - deepened its decline. On the other hand, GUS reported that construction output marked as investment outlays accelerated to 9.4% y/y from 4.2% y/y.

That having said, while June's data are a bit ambiguous, we do expect the construction output to be improving in the upcoming months, driven by rising utilisation of EU funds.

Lower momentum in the housing market

In June, housing market activity was decreased. 15.6k dwellings were completed, 5.2% less than a year ago. The number of building permits issued was 18.8k (-23.4% y/y) and the number of housing starts was 15.9k (-25.2% y/y) - for both of these variables, these are the lowest growth rates since mid-2023, and our index of the number of running projects fell to 71.8 pts from 76.7 pts, its lowest level since June 2024.

In our view, what we observe are still the effects of the reduction in demand in the housing market related to the exhaustion of funds from the "2% Safe Credit" government programme and the effects of a slowdown in price growth in the market. In contrast, mortgage loans data has seen some improvement in demand in recent months, which should be further supported by the prospect of interest rate cuts. This should, in our view, have the effect of halting the downward trend in the housing market.

Labour market stronger than expected

Average employment in the enterprise sector in June remained similar to May (0.0% m/m with a minimal increase of 2k in FTEs), with a y/y decline of 0.8%, which is in line with market expectations and slightly above our forecast (-0.9% y/y). Compared to the beginning of the year, employment in whole sector was lower by 19k. Among enterprise sector branches, employment fell by 10k in manufacturing, while a similar increase of 10k occurred in the professional, scientific, and technical activities. In other sectors, the changes were smaller, with the positive overall balance due to growth in construction, accommodation and catering, and support service activities.

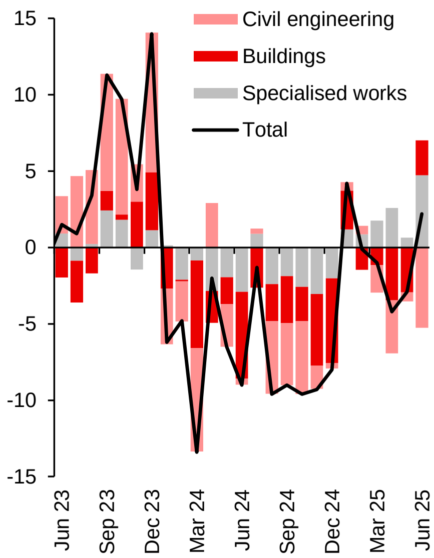
At the same time, wage growth in June reached 9.0% y/y, above the previous month's figure (8.4% y/y) and above market expectations and our forecast (8.6% y/y in both cases). In real terms, wages increased by 4.8% y/y in June, compared to 4.2% y/y in May. Given the expected decline in inflation, we are likely to see even higher real increases in the coming months. The overall wage growth was primarily driven by the high growth recorded in industry (10.0% y/y) - even when excluding mining (which recorded 21.4% y/y) this still represents a relatively high wage growth of 8.7% y/y, up from 8.5% y/y in May. Within industry, the energy sector also recorded high growth (15.2% y/y), while manufacturing – the main component of this sector – maintained solid growth at 8.7% y/y (the same as the average since January and compared to 8.8% in May). In services, wage growth was also similar to previous months, at 8.5% y/y in June vs 8.4% in May. However, the relatively low reading in the trade sector is noteworthy (6.2% y/y, after 5.9% in May and 8-9% at the beginning of the year). Wages slowed in the construction sector, rising 6.7% y/y compared to an average of 7.7% y/y in the January-May period, although the May print alone was lower at 5.9%.

Seasonally adjusted wages in June increased by 0.9% m/m compared to 0.5% in May. In recent months, wage increases have been highly volatile from month to month, but the smoothed changes in wage rates indicate that wage pressure stays relatively strong – despite the lower perception of wage pressure in companies declarations indicated in the NBP Quick Monitoring report. We expect wage growth to remain around or above 8% y/y in the coming months. Given that the Monetary Policy Council has recently indicated the pace of wage growth as one of the main reference points for decisions on interest rates, these data may be an important argument for caution regarding the monetary policy easing in the coming months. We still expect two more interest rate cuts this year: in September and in November, both by 25bp.

PPI inflation still clearly negative

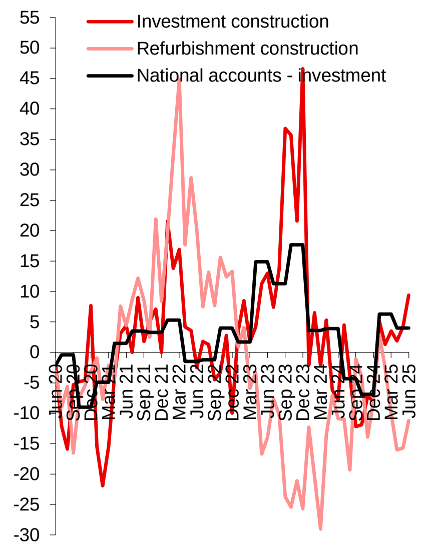
PPI inflation came at -1.8% y/y in June after -1.5% y/y in May. This is in line with our forecast and slightly lower than the market had expected (-1.7% y/y). In m/m terms, prices in industry grew by 0.2% after a decline of 0.3% in May (revised from -0.2% m/m). Prices rebounded the

CPI inflation, % y/y



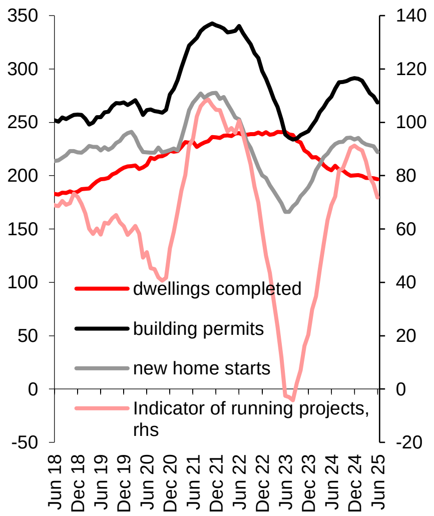
Source: GUS, Santander

Core and supercore inflation, % y/y



Source: GUS, Santander

Housing market statistics, 12m sums, thousands

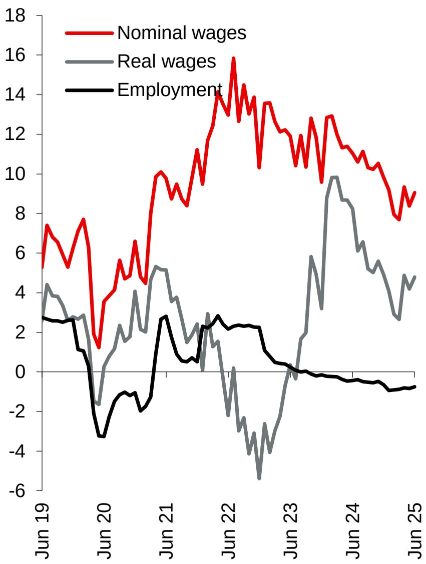


Source: GUS, Santander

most in the production of coke and refined petroleum products (1.7% m/m), due to the increase in global energy commodity prices in response to the Middle East conflict, and in the production of leather and leather products (1.6% m/m). The largest m/m price declines were observed in clothing (-0.9% m/m) and tobacco products (-1.0% m/m). The core measure of PPI inflation, which excludes the categories most sensitive to global commodity prices, fell to -1.6% y/y in June from -1.3% y/y in May, according to our calculations.

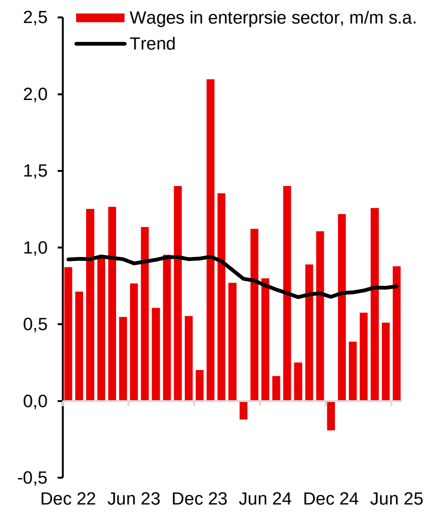
In our view, PPI inflation will now head upwards, although its rise will not be uniform and we are not sure if it manages to rise above zero still this year.

Employment and nominal and real wage growth in the enterprise sector, %y/y



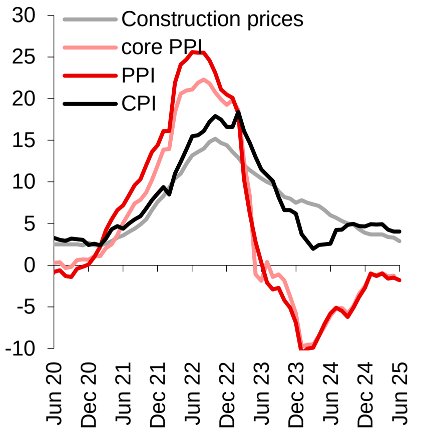
Source: GUS, Santander

Nominal wages in the enterprise sector, %m/m s.a.



Source: GUS, Santander

Indices of consumer, producer and construction prices, %y/y



Source: GUS, Santander

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