21 August 2025

# Economic Comment

## Wage slowdown, industrial output rebound

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In July's economic data set, industrial production clearly exceeded expectations (2.9% y/y, market: 1.8%, our forecast: 1.4%) contrasted with negative surprises from the labour market, both in terms of wage growth (slowing to 7.6% y/y, a percentage point lower than market expectations) and the scale of employment decline in the enterprise sector (deepening to -0.9% y/y). The construction sector recorded its second consecutive y/y increase in production volume, and data from the housing market began to show signs of bottoming out. PPI inflation remained negative. Consumer sentiment improved in August.

Today's data paint a picture that, on the one hand, reinforces expectations of improved economic growth in 3Q, and on the other hand, allows us to keep pointing to a possible interest rate cut by the Monetary Policy Council in September.

**A positive surprise in the industry, but will it last long?**

In July, Polish industrial production increased by 2.9% y/y, significantly exceeding market expectations (1.6%) and our own (0.9%). At the same time, the previous reading was revised downward, from -0.1% y/y to -0.4% y/y. Seasonally adjusted, industrial production increased by 0.9% m/m. Industrial manufacturing recorded a solid growth rate of 3.4% y/y, remaining the main driver of overall industry growth. Production in mining and energy remained lower than a year ago, while the water supply sector maintained growth of over 3%.

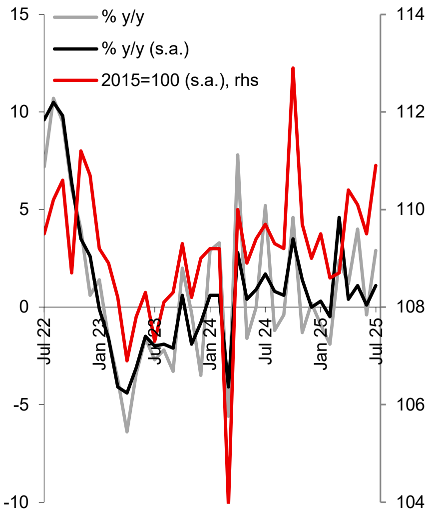
Production growth was recorded in half of the 34 industrial sectors. Production of capital goods reached 11.8% y/y, and intermediate goods increased by 1.3% y/y. The production of non-durable consumer goods increased by 3.8%, while the production of durable goods decreased for the second consecutive month, this time by 4.0% y/y. Energy production fell by 8.9% y/y. The highest y/y growth was recorded in the repair, maintenance, and assembly of machinery and equipment (47% y/y), the production of automobiles and automotive parts (11.6%), and food products (7.8% y/y). Beverage production declined by 6.8% y/y, and the production of computers and electronics fell by 3.6% y/y. Industrial sectors focused on production for exports recorded an acceleration from 1.3% in June to 4.0% y/y in July. In turn, sectors with a predominance of production for the domestic market increased production by 1.7% y/y, following a 2.4% decline the previous month. Overall, most of the industrial sector recorded a better result in July compared to June than is typical for this month. A particularly strong m/m rebound compared to historical data occurred in food production, mining, as well as in the production of chemicals, furniture, and transport equipment.

Business climate indicators for Polish industry have not been overly optimistic so far, despite a slight improvement in the latest PMI. Similarly, employment and wage data for the entire sector are not encouraging. Adding to this the downward revision of June's data, there's a risk that the July production reading may be more of a one-off deviation than a lasting boost in business activity. Nevertheless, relatively good business climate indicators in Germany and the eurozone support our expectations for a gradual increase in production dynamics in the coming months.

**Unexpected decline in wage growth**

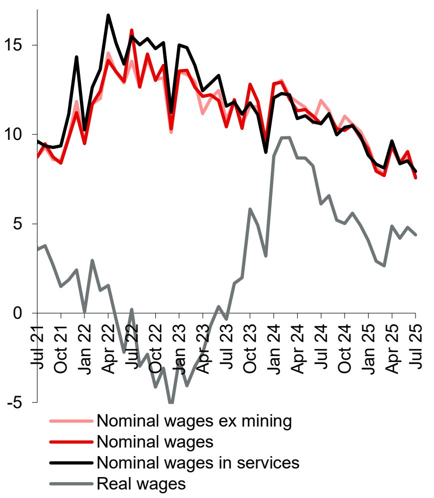
Wage growth in the corporate sector fell from 9.0% y/y in June to 7.6% y/y in July, a percentage point below the market consensus of 8.6% y/y and our forecast of 8.5% y/y. Real wage growth declined less drastically, from 4.8% y/y to 4.4% y/y, thanks to the July decline in inflation.

**Industrial output, % y/y**




*Source: GUS, Santander*

**Wages in the corporate sector, % y/y**




*Source: GUS, Santander*

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Deceleration of nominal wage growth was registered both in the industrial sector (from 10.0% y/y to 7.0% y/y, per our calculations) and in the services sector (from 8.5% y/y to 7.9% y/y). We expected that wage growth in the industrial sector had declined in July, but the scale of the drop came as a surprise to us, especially when it comes to the mining and energy supply sectors. In the case of the services sector, we expected that wage growth had remained fairly stable, which further increased the size of the deviation of the July data from our forecast. In effect, because slowdown was registered in both industry and services, wage growth outside of the mining sector did not differ much from the overall wage growth and stood at 7.7% y/y, compared to 8.7% y/y in June.

Generally, the data strengthen the case for rate cuts in the coming months, which may have seemed to weaken after the unexpected jump in wage growth in June. We expect the MPC to deliver the next 25 bp rate in September, and to cut the rates once more this year, in November by 25 bp.

**Unusual decline in employment**

Employment growth in the corporate sector fell to -0.9% y/y in July from -0.8% y/y at which it has stood from April till June. Both we and the market expected that it would stay at -0.8% y/y.

Month-on-month, the number of full-time equivalents (FTEs) fell by c. 4k. Interestingly enough, the decline and the deviation from our forecast had its main source in the sector of professional, scientific and technical activities which shed 9.6k FTEs, just after it had gained 10k FTEs in June. These meant that the growth rate of employment in the sector advanced from -0.2% y/y in May to 3.4% y/y in June and again retreated to -0.3% y/y in July. Such behaviour suggests that the changes in FTEs over the last two months may not reflect real economic developments but instead may have arisen due to some methodological modifications, perhaps a reclassification of surveyed companies. This hypothesis is also supported by the 4.9k increase in FTEs in the manufacturing sector, which came after a 10k drop in June and which again lifted the growth rate of employment in the sector to -0.6% y/y from -0.9% y/y in June, i.e. back to the level from March-May.

Because of the aforementioned details of the July employment data, we do not think that they point to a worsening of the situation in the Polish labour market. We expect that in the following months, the growth rate of employment should begin to improve.

**Construction in the black for the second month in a row**

Construction output rose by 0.6% y/y in July after 2.2% y/y in June, roughly in line with expectations (our forecast: 0.4% y/y, market forecast: 1.4% y/y). This was the second positive result in a row after a series of declines. In seasonally adjusted terms, production fell by 0.6% m/m.

As in previous months, specialist works recorded a positive result (5.4% y/y), with a decline in production in construction of buildings (-1.3% y/y) and in civil engineering (-3.4% y/y). On the other hand, investment works increased by 4.1% y/y, while maintenance and repair works decreased by 6.2% y/y.

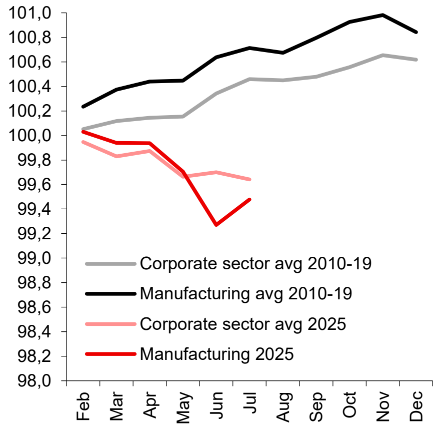
We are expecting the construction output to be slowly improving in the months to come, driven by rising utilisation of EU funds. However, this rebound is unlikely to be dynamic, given that the data on EU funds spending continues to disappoint.

**Is the housing market bottoming out?**

The number of dwellings completed fell by 5.6% y/y in July, the number of building permits by 2.4% y/y, and the number of construction starts by 1.6% y/y. Market activity remains subdued, but it is worth noting that the number of building permits improved significantly, reaching 26.2k compared to readings hovering around 20k in previous months. The index of projects in progress also rose slightly, to 72.2 points from 71.8 points.

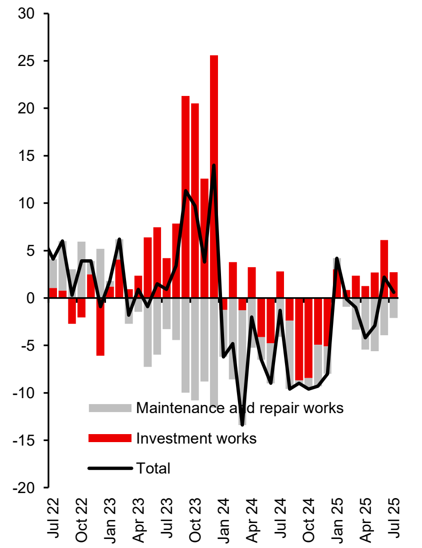
In our opinion, the housing market has already bottomed out. Based on a single reading of the number of building permits, it is of course difficult to predict an upcoming recovery, but data from the credit market indicate an increase in demand for housing, which should translate into an improvement in the housing market statistics later in the year.

**Employment in the corporate sector, January = 100**



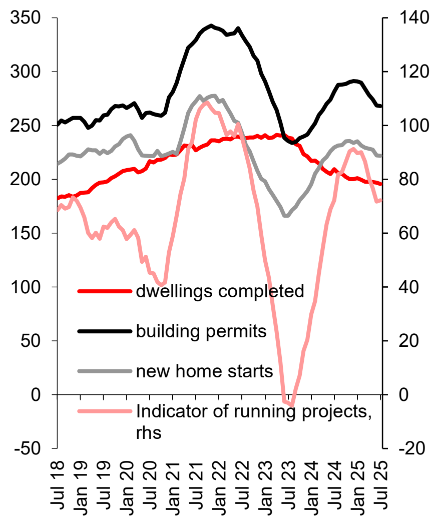

*Source: GUS, Santander*

**Construction output, % y/y**




*Source: GUS, Santander*

**Housing market statistics, 12M moving sums, in thousand units**




*Source: GUS, Santander*

**Consumer sentiment improved in August**

In August, consumer survey results improved significantly in almost all categories. The current assessment index rose to -12.1 pts from -14.0 pts a month earlier, which is some 4 pts above the long-term average. The expectations index rose to -6.3 pts from -7.7 pts, which is 11.7 pt above the long-term average. For both August was and the second strongest month of the last 12 readings.

The largest improvement was seen in expectations about the performance of the economy (up more than 4 pts m/m), while the major purchases index, the index of current economic situation and the index of job security went up by over 2 pts. On the other hand, consumers signalled that their current financial situation worsened (the index is now the lowest in 4 months) and so did their ability to save money in the next 12 months (the saving index print did however remain among the highest ever).

Consumer inflation expectations index decreased in August to the second lowest reading over the last 1.5 years despite much media coverage of heating price hikes across the country.

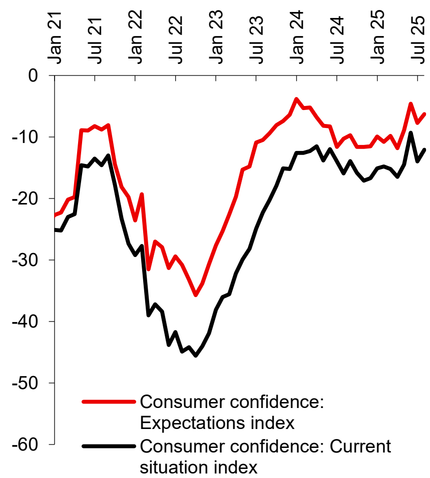
Consumer sentiment indices were pretty trendless in 2H24 and early 2025, but recent prints show more optimism, which should lead to further decent private consumption growth this year, close to 3%.

**PPI inflation still negative, but rose more than expected**

PPI inflation rose to -1.2% y/y in July from -1.5% in June (revised to the upside, from -1.8% y/y), while the market and us expected to see a rise to -1.4% y/y. The June data revision was mostly about an increase in manufacturing prices, pushed from initially reported 0.1% m/m to 0.5% m/m. In July, manufacturing prices were down 0.1% m/m, but the annual growth increased to -0.9% from -1.3% and has not been higher for over two years. Our estimate of core PPI (a measure excluding prices highly dependent on global commodities) moved in July to -0.5% y/y from -0.6% y/y in June, the highest since July 2023.

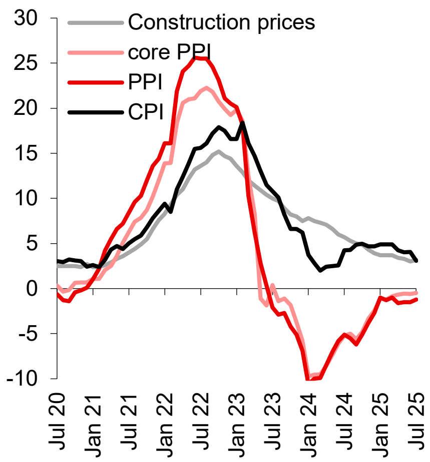
Construction prices rose 0.5% m/m in July. Their annual growth rate moved to 3.2% y/y from 3.0% in June, which marks the first acceleration since January 2024.

**Consumer sentiment, %y/y**




*Source: GUS, Santander*

**Inflation measures, %y/y**



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