

18 September 2025

# Economic Comment

## August's set dominated by weak data

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August data from the Polish economy turned out to be weaker than expected in most cases. While the slowdown in production growth was in line with our forecast and resulted, among other things, from fewer working days, the slump in construction and assembly production raises many questions about the reasons for this situation. We still believe that the coming months should bring a recovery in this sector, resulting from the rising absorption of money from the RRF. Average wages in the enterprise sector slowed to 7.1% y/y in August from 7.6% in July, which is below expectations and affected most industries in the sector. Employment in the enterprise sector fell by 0.8% y/y, in line with expectations, while still showing no signs of the recovery that is expected sooner or later.

From the point of view of further decisions by the Monetary Policy Council, today's data reduce the risks of persistent inflationary pressure in the economy, thus providing more scope for interest rate cuts. However, we believe that the decisive factor before the next MPC meeting will be the September inflation reading, which will be released on the last day of the month.

### A small but stronger-than-expected rise in industrial production

In August, Polish industrial output rose 0.7% y/y, in line with our forecast and 0.5pp above the market consensus. The slowdown from 3.0% y/y in July (revised up from 2.9%) can be attributed to working day differences: the seasonally adjusted annual growth improved: from 1.1% in July to 1.5% in August. The seasonally adjusted production level was almost unchanged month-on-month (-0.1%).

Investment goods (+7.2% y/y, without seasonal adjustment) continued to outpace other categories. Consumer durables, which showed weak performance in recent months, this time managed to grow 0.2% y/y vs. -4.0% y/y in July despite the adverse working day difference.

Performance across individual industries remains highly uneven. The food industry continues to make the largest contribution to overall annual production growth, adding 0.9 percentage points in August, although this was down from 1.4 percentage points in July. Transport equipment excluding motor vehicles made an unusually strong contribution of 0.6 percentage points (the second highest since the end of 2019, the industry reported a year-on-year production increase of 34.4%). In contrast, motor vehicle production saw its first year-on-year decline (-4.2%) since February, making it the largest drag on industrial output in August.

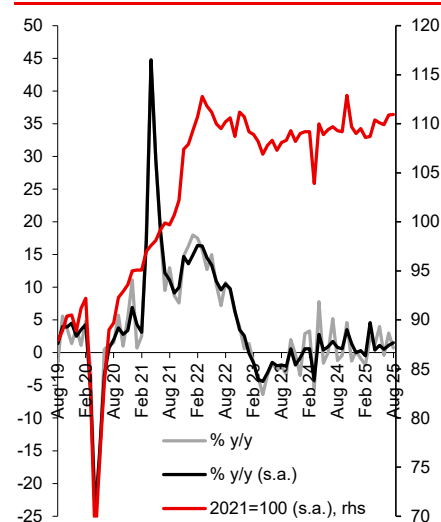
We expect the overall production volume growth to move above 2% on average in 2H25, compared to 0.7% in 1H25. The monthly readings of y/y output growth should stay positive for the rest of the year.

### Unexpected collapse in construction output

Construction and assembly output declined by 6.8% y/y in August, contrary to our and the market's expectations of an increase of 0.2–0.3% y/y. The collapse in output followed two months of growth, which had been preceded by a longer period of contraction. In a month-on-month comparison, and after seasonal adjustment, construction output fell by 4.0% – the most since March 2024.

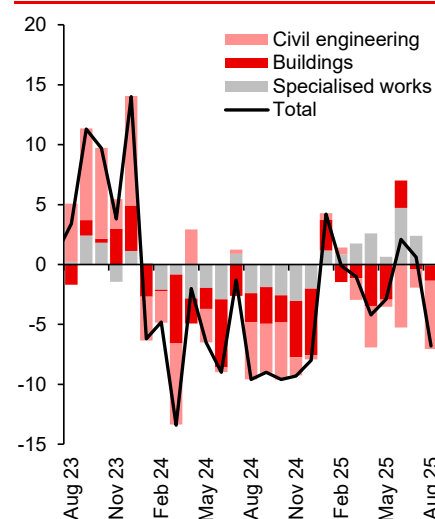
Decreases were recorded across all major categories of construction projects, with the sharpest drop observed in civil engineering – down by 12.8% y/y. Construction of buildings fell by 4.1% y/y, and specialised construction activities declined by 0.3% y/y.

### Industrial production



Source: GUS, Santander

### Construction and assembly output, growth structure, % y/y



Source: GUS, Santander

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Construction output classified as investment decreased by 4.7% y/y, which marked its first year-on-year decline since December 2024. Renovation works fell by 11.4% y/y – more sharply than in July, when the decline was 6.2% y/y, but on a similar scale to the period from March to June.

The downturn in construction output may be partly related to delays in the utilisation of EU funds, especially from the Recovery and Resilience Facility. However, the magnitude of the decline suggests that these delays are not the sole factor. Pinpointing the exact cause is difficult, especially given the increased volatility in construction output in recent months. Nevertheless, we expect that further progress in the utilisation of EU funds should support a recovery in construction output in the coming quarters.

#### Housing market remains weak

Data from the housing market indicates a further slowdown in supply. In August, the number of apartments completed reached 15.2k, roughly the average for the first six months of the year and 4% more than a year ago. However, the total number of apartments completed in the last 12 months (196k) was close to a six-year low. The number of building permits issued, after a temporary recovery in July, fell to 19.8k, a 24.4% year-on-year decline. The number of new housing starts fell by over 19% y/y, and our estimated rate of new housing projects in progress reached its lowest level in a year. Reduced activity in the primary market, coupled with a visible recovery in mortgage demand in the banking sector, may indicate that the slight price correction recently observed in the housing market is coming to an end.

#### A sharp slowdown in wage growth, no improvement in employment growth

Average wages in the corporate sector slowed to 7.1% y/y in August, compared to 7.6% y/y in July, significantly below the median market expectations of 7.8% y/y and our forecast of 7.9% y/y. Adjusted for inflation, real wages slowed from 4.4% y/y in July to 4.1% y/y. Importantly, the August result is not affected by the weak performance of one specific industry, as most sectors recorded lower wage increases than we expected. In particular, wage growth in industry remained at 7.0% y/y, despite our expected rebound, although in manufacturing alone it reached 7.7% y/y (compared to 7.6% y/y in July), similar to our expectations. However, industry-wide data were dragged down by a mere 1.0% y/y increase in mining and a 1.5% y/y increase in energy, both of which we had expected to see higher readings.

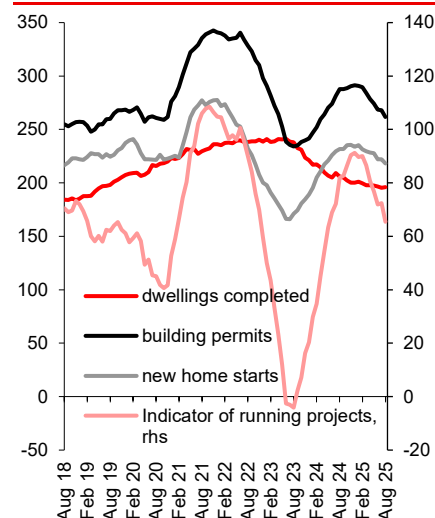
Outside of industry, construction also recorded a low reading, slowing from 8.4% to 6.7% y/y. Within services, growth in trade fell to 5.7% y/y from 6.5% a month earlier, while in professional activities it fell to 5.1% y/y from 7.2% in July, in accommodation and catering industry from 7.5% to 6.7% y/y, and in administration and support activities from 10.1% to 7.7% y/y. We expect that wages will not decelerate further in the coming months; on the contrary, they may accelerate, partly due to base effects and partly due to a likely rebound after weak months in some industries, including the energy sector, where the degree of wage deceleration is quite surprising. Nevertheless, given that NBP Governor A. Głapiński and other MPC members have argued that elevated wage growth is a major risk to the inflation path, the August data significantly lower this risk and increase the likelihood of further interest rate cuts.

In turn, employment in the corporate sector recorded a 0.8% y/y decline, as expected. This translates to a 0.2% m/m decline, comparable to August readings in recent years. This result translates to a loss of 51k contracts y/y and 12k m/m. By sector, the decline was 7k contracts. Manufacturing sector was hit hardest by a decline in employment, while mining, trade, transport, IT, and administration and support services saw declines of between 1 and 2k. Employment growth (by 1k) was recorded only in accommodation and catering. We assume that monthly employment changes will be small in the coming months, which should translate into modest increases in the annual growth rate of this category.

#### Producer prices refuse to go up

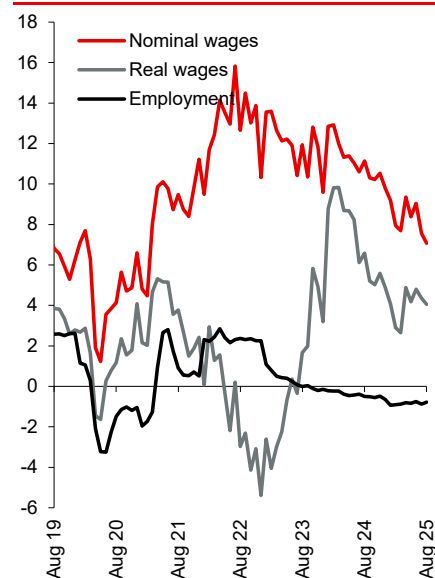
Producer prices fell more than expected in August: -0.4% m/m and -1.2% y/y (our forecast and market consensus were at -0.9% y/y). Part of the surprise resulted from the downward revision of PPI in July (from -1.2% to -1.3% y/y), and the rest from lower than we anticipated prices in manufacturing and in energy supply (both -0.4% m/m). Interestingly, prices of energy supply in July were revised much higher (from 0.6% to 1.9% m/m). We expect the annual PPI growth to remain below zero in the coming months, yet picking up slowly and converging towards zero in early 2026.

**Housing market in Poland, 12m moving sums, in thousands**



Source: GUS, Santander

**Wages and employment in corporate sector (% y/y)**



Source: GUS, Santander

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