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Economic Comment

Production surge, mining masks wage rebound

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In September, Polish industrial output rose 7.4% y/y, up from 0.7% y/y in August – the rebound strongly exceeded market expectations at 5.2% y/y and our 4.3% estimate. In seasonally adjusted terms production rose a massive 4.1% m/m. Average wage growth in the corporate sector rose to 7.5% y/y in September, compared to 7.1% in August, slightly below market consensus (7.6% y/y). We expected an even stronger rebound (8.1% y/y), but the result was distorted downwards by the decline in mining – wages excluding mining accelerated from 7.3% to 7.9% y/y. Employment continued to decline at a rate of 0.8% y/y. PPI inflation remained below -1% y/y.

In the context of the Monetary Policy Council's November decision, we believe today's data support a pause in interest rate cuts – they indicate neither a significant slowdown in wage growth nor excessive wage pressure. We assume that the September data released in the coming days will also show an improvement in economic activity and thus prompt the MPC to hold off on further rate cuts for now.

Industrial production offers another positive surprise

In September, Polish industrial output rose 7.4% y/y, up from 0.7% y/y in August. A clear acceleration from August was broadly expected due to working day differences, but the actual reading strongly exceeded market expectations at 5.2% y/y and our 4.3% estimate. In seasonally adjusted terms production rose a massive 4.1% m/m – such unusually strong prints were seen at times during the post-pandemic recovery but were neighbouring months of large m/m declines.

The production rebound was the strongest in y/y terms in capital goods (16.0% y/y, up from 7.2% in August). Intermediate goods rose 5.0% y/y (-0.7% y/y a month earlier), and consumer goods accelerated from 0.2% y/y to 4.1% for durables and from 1.6% y/y to 7.6% for non-durables.

The automotive industry clearly recovered after the August collapse (12.8% y/y in September vs. -4.2% y/y previously). The growth in food production accelerated to 9.1% y/y from 4.6% y/y in August. The only industry contributing less to the sector's overall result than in August was the production of other transport equipment.

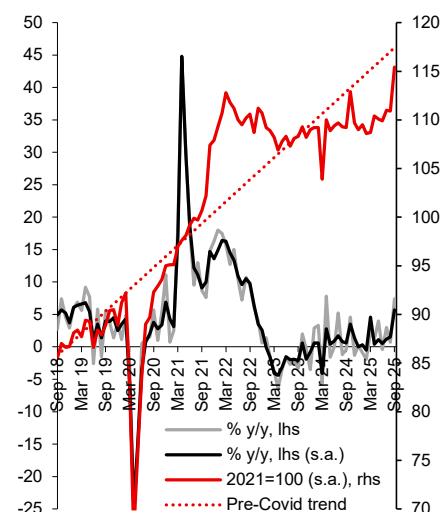
Industrial output growth is quite choppy in recent quarters which makes us cautious about reading the radical September rebound as a sign of a more lasting change in performance. What we need to note, however, is that it is already the third positive surprise in a row. Our 2025 output growth forecast of c.2% may need some upgrade, if there is no large collapse in the next print that offsets the September output surge.

Weaker rebound in wage growth, employment still slightly down

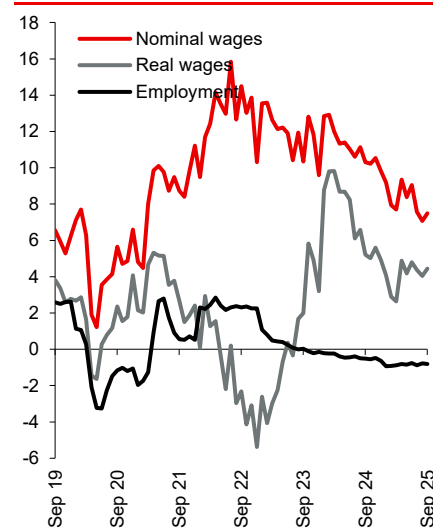
Average wage growth in the corporate sector rose to 7.5% y/y in September, compared to 7.1% in August, slightly below market consensus (7.6% y/y), though we expected an even stronger rebound (8.1% y/y). Over the entire quarter, the average wage growth was 7.4% y/y, compared to 8.9% in Q2. Seasonally adjusted, wages rose by just 0.3% m/m, compared to an average of 0.6% in the January-August period of this year. Adjusted for inflation, real wages rose by 4.4% y/y, after 4.0% y/y the previous month as well as after 4.0% y/y on average in the precedings months this year.

Within the whole sector, industry fared worse than expected, with wage growth rising from 7.0% to 7.1% y/y, but seasonally adjusted, it was only +0.1% m/m, driven by a decline in average wages in mining (-5.1% y/y) and lower-than-expected readings in other industrial sectors. Excluding mining, the entire corporate sector's growth rate increased from 7.3% to

Industrial production



Wages and employment in corporate sector, % y/y



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7.9% y/y. Wages in the manufacturing sector alone recorded a relatively high increase of 8.4% y/y, although due to the calendar effect, we expected a reading exceeding 9%. Surprisingly low growth was again seen in the energy sector: 2.6% y/y after 1.5% y/y the previous month. In contrast, services recorded results close to our expectations (acceleration from 7.2% to 7.7% y/y), although we expected a higher rate of wage growth in transport. The largest service sector – trade – has continued its moderate trend for several months, with growth around 6% (6.2% year-on-year in September, after 5.7% year-on-year the previous month). We expect wages to maintain a growth rate above 7% y/y in the coming months.

Employment in the corporate sector, in turn, declined by 0.8% y/y, in line with our and market expectations. This translates to a 0.1% m/m decline, representing a loss of 9k employees compared to August and 45k employees compared to January. Employment declined in the retail sector (by 5k) and in manufacturing (by 3k). Some of the declines in September, particularly in retail, may be seasonal and do not necessarily indicate a deterioration in economic conditions. We expect employment in total to gradually stabilize.

Industrial prices slightly lower

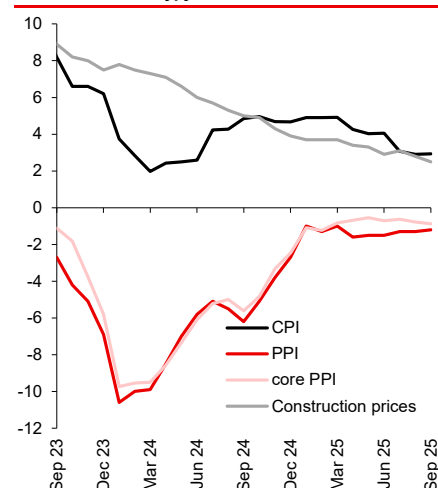
PPI inflation was -1.2% y/y in September, after -1.3% y/y in August (revised data), compared to our and the market forecast of -1.1% y/y. Month-on-month, producer prices fell by 0.2%, supported by a slightly stronger zloty and cheaper commodities in global markets. We expect the PPI may further decline in the coming months due to base effects and may remain negative for several more quarters. In construction, prices were stable month-on-month, which translated into a further decline in annual growth, to 2.5% y/y from 2.8% y/y in August.

The significance of the data for monetary policy

In the context of the Monetary Policy Council's November decision, we believe today's data support a pause in interest rate cuts – they indicate neither a significant slowdown in wage growth nor excessive wage pressure. We believe that the strong rebound in industrial production would likely need to be confirmed in subsequent readings before it could be considered a factor influencing the Council's approach, especially since it does not entail significant upward pressure on PPI inflation.

We assume that the September data released in the coming days will also show an improvement in economic activity and thus prompt the MPC to hold off on further rate cuts for now. We believe the time for rate cuts will come early next year.

Price indices, % y/y



Source: GUS, Santander

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