

## Economic Comment

### Strong production, softer wages

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In October, industrial output rose by 3.2% y/y in October beating expectations for the fourth time in a row (we: 1.4%, market: 1.8%). Construction output also exceeded market forecasts, increasing by 4.1% y/y against the consensus of 0.9% y/y. Meanwhile, the average wage growth in the enterprise sector slowed to 6.6% y/y from 7.5% y/y in September, clearly below the market consensus (7.2% y/y) and our forecast (7.3% y/y). Employment in the enterprise sector fell by 0.8% y/y, in line with our and market expectations. PPI inflation was also lower than expected, dropping to -2.2% y/y against the consensus of -1.8% y/y.

Regarding the December decision of the Monetary Policy Council, the data have a mixed tone – on the one hand, weaker wages and PPI suggest lower inflationary pressure, while strong industrial and construction results point to faster GDP growth. Although we assume the next rate cut will come in January, today's data increase the likelihood that the MPC will reduce rates already in December. Either way, we still expect the target rate level to be 4.00%, which implies one more move.

#### Industrial production above forecasts for the fourth time in a row

Industrial output rose in October by 3.2% y/y, beating expectations for the fourth time in a row (we: 1.4%, market: 1.8%). In seasonally adjusted terms, output fell by 1.0% m/m. The slowdown versus September (7.6% y/y revised from 7.4% y/y) was widely expected given the working-day effect.

The slower growth was primarily visible in the exporting sectors, which saw output slow to 3.0% y/y from 9.6% y/y, while non-exporting sectors decelerated to 3.2% y/y from 4.6% y/y. Especially positive performance was visible in manufacture of clothing, wood, chemicals and other transport equipment. In production broken down by main industrial groupings, the slowdown was visible in all sectors, with the strongest in the case of capital goods (down to 9.2% from 16.0% y/y) and consumer durables (down to -0.6% y/y from 4.1% y/y).

The numbers generally show that the Polish industry remains robust, despite still disappointing data from Germany and euro zone (Friday PMIs and today's Ifo index surprised to the upside) and should not be an obstacle for a further acceleration in Polish GDP growth in 4Q25. We think that 4Q25 can be the strongest quarter of the year in terms of industrial output, as its growth rate is likely to exceed 4% versus 3.8% in 3Q25. Still, it is difficult to expect a stronger acceleration in industry as long as Germany remains in stagnation.

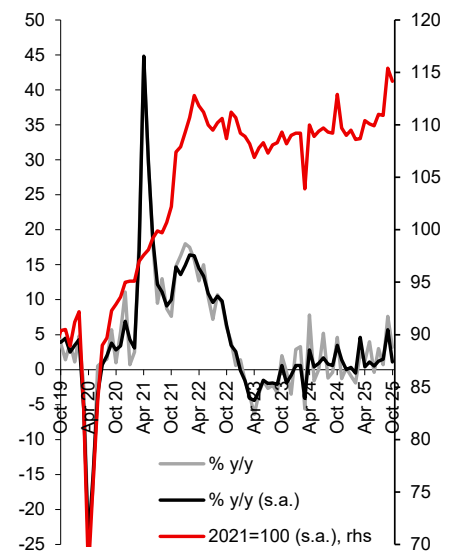
#### Unexpectedly strong increase in construction output

Construction output growth accelerated from 0.2% y/y in September to 4.1% y/y in October, well above both the market consensus of 0.9% y/y and our estimate of 0.7% y/y. In seasonally adjusted terms, construction output rose 3.0% y/y and 2.3% m/m.

The October increase reflected rebounds in the construction of buildings, from -3.8% y/y to 2.4% y/y, and civil engineering projects, from -3.0% y/y to 3.2% y/y, and took place despite a minor decline in the growth rate of specialised works, from 10.7% y/y to 7.8% y/y. When it comes to the breakdown of construction projects by the nature of the conducted works, growth in investment works increased from 2.4% y/y to 4.9% y/y and in restoration works from -4.6% y/y to 2.5% y/y.

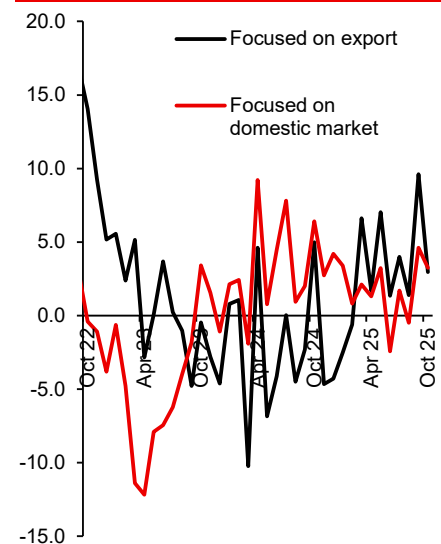
The better-than-expected results of construction output may have stemmed from increasing utilisation of EU funds, especially given the rebound in civil engineering and the acceleration in investment works. Though the October print may be a signal of the investment cycle

#### Industrial output



Source: GUS, Santander

#### Industrial production growth in export and no-export sectors, % y/y



Source: GUS, Santander

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gaining momentum, it seems too early to expect that from now on construction output will continue to steadily register results as high as in October.

#### Activity in Polish housing market stable month-on-month, weaker year-on-year

The number of dwellings completed in October amounted to 19.9k, similar to September, when 19.1k dwellings were completed, marking the highest figure since the beginning of the year. Both the number of building permits issued and the number of housing starts also remained at comparable levels month-on-month, at, respectively, 24.4k (compared with 23.6k in September) and, 20.3k (compared with 19.6k in September).

In year-on-year comparison, the increase in the number of completed dwellings remained solid at 13.4% y/y versus 22.1% y/y in September, but the growth rates of building permits issued and housing starts point to a slowdown in market activity – the former fell from 1.3% y/y to -1.0% y/y, while the latter slowed from 1.6% y/y to -12.8% y/y. As a result, our proxy measure of running housing construction projects declined by 2.6 pts to 59.7 pts.

The slowdown in housing market activity, combined with a revival in demand for dwellings, visible for example in mortgage lending data, may increase pressure on property prices.

#### Wages slowed down sharply

Average wage growth in the corporate sector declined to 6.6% y/y in October, down from 7.5% y/y in September, significantly below the market consensus (7.2% y/y) and our forecast (7.3% y/y). Adjusted for inflation, real wages rose by 3.7% y/y, following 4.4% y/y the previous month and compared to an average of 4.3% in the previous 12 months. Excluding mining, wages slowed even more, by a full 1 pp., from 7.9% to 6.9% y/y.

Most sectors recorded lower results than we expected, although the decline in month-on-month growth was most strongly influenced by the decline in growth in the transportation and warehousing sector (from 8.7% to 2.4% y/y), which may be a one-off. There were no significant deviations from the trend in other service sectors. The largest services sector – retail trade – has continued its moderate trend for several months, with growth around 6% (5.9% y/y in October, after 6.2% y/y the previous month). Wage growth in construction slowed down quite significantly (from 8.3% to 6.8% y/y). Solid, though slightly lower, wage growth was observed in manufacturing (8.0% y/y after 8.4% y/y the previous month). In the mining sector, wages declined y/y for the second consecutive month (-1.6% y/y after -5.1% y/y in September), which may be a sign of financial problems for some coal companies.

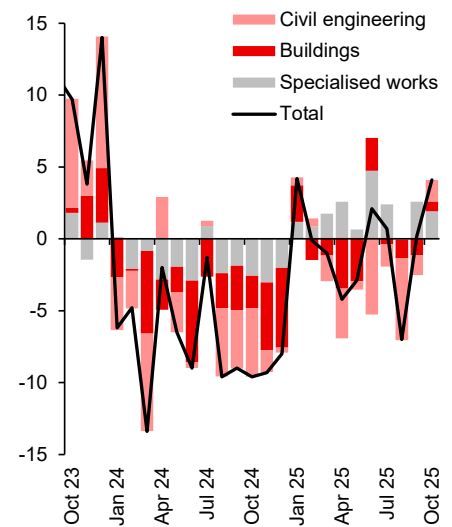
In turn, employment in the corporate sector recorded a 0.8% y/y decline, in line with our and market expectations. This translates to a 0.1% m/m decline and a loss of 5k full-time employees m/m, compared to a decline of 9k m/m in September and 13k m/m in August. The number of employees in manufacturing decreased by 3k and by 1k in mining, retail trade and the horeca sector.

In the coming months, data in the corporate sector will be influenced by significant base effects, but we expect that for the entire 4Q, the growth rate will drop from 7.4% y/y (monthly average in 3Q) to below 7% y/y, and the employment decline will stop at -0.8% y/y.

#### Industrial prices slightly lower

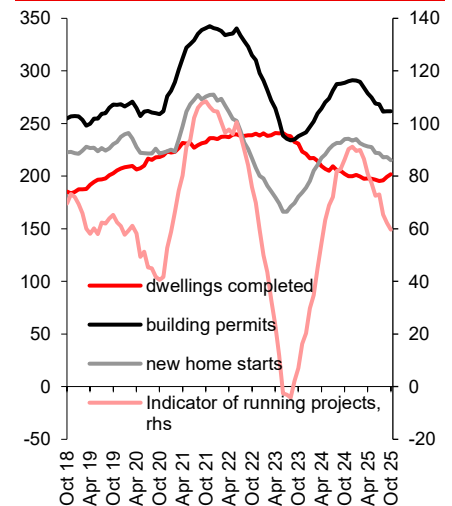
Polish PPI inflation surprised to the downside in October. It declined to -2.2% y/y from -1.4% y/y (revised down from -1.2% y/y) in September. The market was prepared to see a decline to only -1.8% y/y, which was also our forecast. This is the lowest reading this year. The downside momentum in manufacturing prices increased – the annual change went from -1.4% y/y in September (originally reported as -1.2% y/y) to -2.3% y/y in October. Mining prices fell -5.9% y/y against -4.4% y/y a month earlier. We had thought that prices offered by utilities could start to increase in y/y terms in October, but a further decline was reported (-1.0% y/y). The large m/m decline in oil price and the October strengthening of the zloty supported a lower reading of PPI inflation. The downside surprise with the headline PPI reading suggests that there is also a significant pressure on producer prices coming most likely from market competition on the European markets, heightened by the inflow of Chinese goods in the face of global trade reshuffle. Core PPI, that we calculate by excluding the categories highly exposed to global commodity prices, was -1.6% y/y in October, after -1.1% in September and -0.7% in August. The inflow of relatively cheap foreign goods is also an important issue for consumer prices, so a deeper drop in PPI suggests that CPI is still facing the same kind of downside pressure. It looks

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



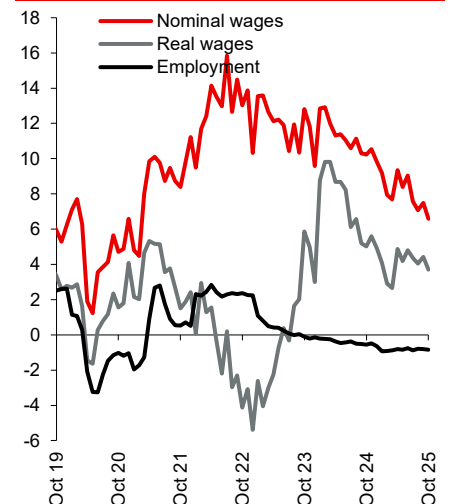
Source: GUS, Santander

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



Source: GUS, Santander

#### Wages and employment in corporate sector, % y/y



Source: GUS, Santander

that it will take PPI longer than we thought to return to zero growth, but it should happen at some point next year, in our view.

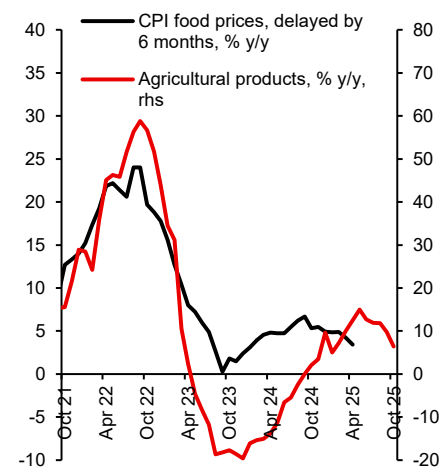
### Decline in agricultural product prices

Procurement prices of agricultural products fell by 1.6% m/m in October, marking the sharpest monthly drop since January. This was mainly driven by lower pig prices, but milk, poultry, cattle and wheat also became cheaper, among others. The decline in agricultural product prices will support a slowdown in food price growth in CPI over the coming months.

### Implications for monetary policy

As for the December decision of the Monetary Policy Council, the data have a mixed tone – on the one hand, weaker wages and PPI suggest lower inflationary pressure, while strong industrial and construction results point to faster GDP growth. Although we assume that the next rate cut will come in January, today's data increase the likelihood that the MPC will reduce rates already in December. Either way, we still expect the target rate level to be 4.00%, which implies one more move.

**Agricultural product prices and food prices included in CPI, % y/y**



Source: GUS, Santander

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