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Economic Comment

January's frost left its mark on the data

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January's economic data turned out weaker than our already rather pessimistic assumptions. Downside surprises were seen both in indicators of real activity (industrial and construction output, employment) and in nominal figures (wages, PPI inflation). In our view, the poor January performance largely reflects one-off factors (a smaller number of working days, a holiday calendar conducive to long weekends, a very low average temperature in January of -4.3°C compared with $+1.8^{\circ}\text{C}$ in January 2025, as well as snowfall), which does not undermine the positive medium-term trend. This is evidenced, among other things, by still solid and even improving optimism surveys among consumers and businesses. We therefore expect a rebound in the coming months, although February will still be affected by harsh weather conditions. In our opinion, the data released today increase the likelihood of an interest rate cut at the Monetary Policy Council's upcoming meeting in March.

Labour market weaker than expected

January labour market data were softer than expected. Employment declined by 0.8% y/y versus expectations at -0.7% y/y. Note that the January reading is under strong impact of revision in statistical sample and usually shows a high variance. Given that employment was declining in the course of 2025, the downward revision comes as no surprise. In monthly terms, employment declined by 9.8 FTEs. Most considerable declines were observed in administrative and supportive activities (-7.4k), professional, science and technical activities (-5.5k) and construction (-3.8k). We think that the improving pace of economic growth should gradually fuel stronger labour demand and expect the employment to rebound slightly further in the year.

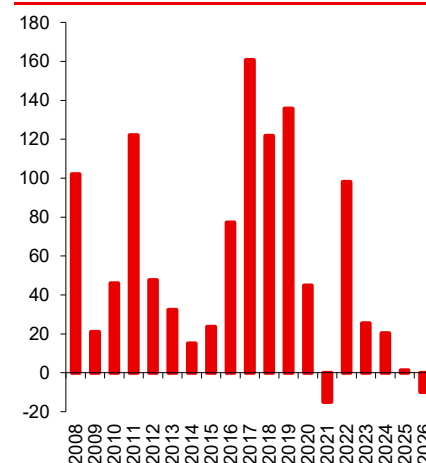
Wage growth also surprised to the downside, as it printed 6.1% y/y vs our forecast and market consensus slightly above 7% y/y. While a slowdown from December's 8.6% y/y was widely expected, it proved to be somewhat stronger than assumed. The wage growth was pretty weak across the board, with wages ex mining slowing to 6.2% y/y from 9.0% y/y and wages in services to 6.5% y/y from 9.0% y/y. We think that some one-off factors undermining the wage growth were in play (strong December, lower number of working days, severe weather conditions), and some improvement is likely in the upcoming months, but in our view the average wage growth will be slowing gradually in 2026. Still, in real terms the wage growth will remain positive, supporting the private consumption.

Industrial sector momentum cools after a strong December

In January, industrial output fell by 1.5% y/y. The market had expected a slowdown from +7.3% y/y in December to +1.7% y/y, while our forecast stood at +2.8% y/y. This marks the third consecutive month in which we have observed historically large deviations of industrial output growth from market forecasts: the November reading was almost 4 pp below expectations, December turned out surprisingly strong (4.3 pp above the market median), and now—in January—the mismatch with market expectations again amounted to 4.3 pp. The surprises have not followed a single direction, which is why we do not see a structural problem in the sector (one that would lead to systematically large discrepancies versus econometric model results), but rather some shifts in activity over time. Nevertheless, when compared with the average growth rate in 2H25 of +3.5% y/y, today's reading still looks weak.

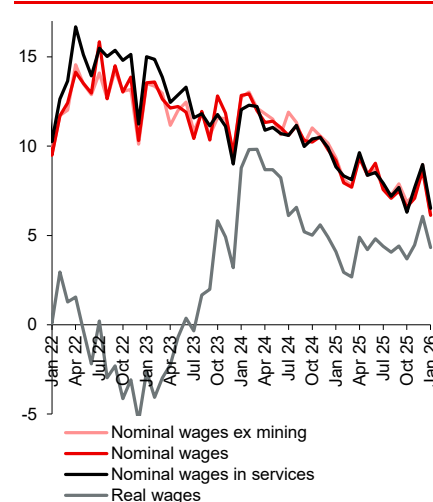
There are, however, reasons for this that are unrelated to business sentiment: one fewer working day than in January 2025 and exceptionally adverse weather conditions—snowfall

CPI inflation, % y/y



Source: GUS, Santander

Breakdown of change in annual CPI, % y/y



Source: GUS, Santander

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and extremely low temperatures—which most likely disrupted logistics chains and the execution of deliveries. We adjusted our forecast to account for these factors, but evidently the adjustments were too mild. January's frosts, by contrast, had a positive impact on energy output. The category covering the generation and supply of electricity, gas and heat recorded output growth of 18.7% y/y after -2.6% y/y in December (the strongest increase in almost four years), but the overall impact of weather conditions on industry was clearly negative.

At the same time, the GUS business climate indicator improved significantly in January—by around 8 pts—with a similarly strong m/m improvement last seen in August 2020. Moreover, the two most recent readings of German industrial orders were also surprisingly strong, reinforcing the case for treating the January slump in industrial activity as a temporary phenomenon. The next reading may still be weighed down by the effects of unusual frosts, but later in the year we expect the sector to return to positive, single-digit growth, supported by improving economic conditions in the EU.

In January, aside from the exceptionally strong performance of utility service companies, mining and water abstraction, treatment and supply plants also performed relatively well, recording m/m production growth clearly above the historical median for this month (i.e. the usual January declines in activity were smaller than normal). Among manufacturing branches, producers of other transport equipment and electrical equipment also managed this. By contrast, markedly weaker-than-usual monthly dynamics were seen among producers of aggregates (other non-metallic mineral products), metal products, wood products, textiles and pharmaceutical products—though to a large extent this was a consequence of their high level of activity in December.

Winter's drag on construction output stronger than expected

The momentum of construction and assembly output collapsed in January to -12.8% y/y from 4.5% y/y in December, coming in well below both our forecast of a decline to -2.5% y/y and the market consensus pointing to a fall to -5.0% y/y. On a month-on-month basis, and after seasonal adjustment, construction and assembly output dropped by 8.9%.

Declines in construction output were recorded across all major categories: building construction fell by 18.4% y/y, civil engineering by 7.5% y/y, and specialised construction activities by 11.9% y/y. A breakdown by the nature of work suggests that the January slump was driven primarily by renovation works, which plunged by 28.3% y/y after a 5.2% y/y increase in December. Investment works declined far more moderately, by 3.9% y/y, following a 4.2% y/y rise in December.

In our view, the sharp contraction in construction and assembly output is a direct consequence of unusually adverse weather conditions. At the same time, the data remain consistent with the onset of a new investment cycle, not least thanks to the relatively small declines in investment projects and in civil engineering works. Moreover, it is worth noting that construction output volumes in January are, as a rule, the lowest recorded over the course of the year, which amplifies the volatility of January growth rates.

In February, weather conditions may continue to weigh negatively on construction and assembly output. Once winter fades, construction output growth should return to positive territory.

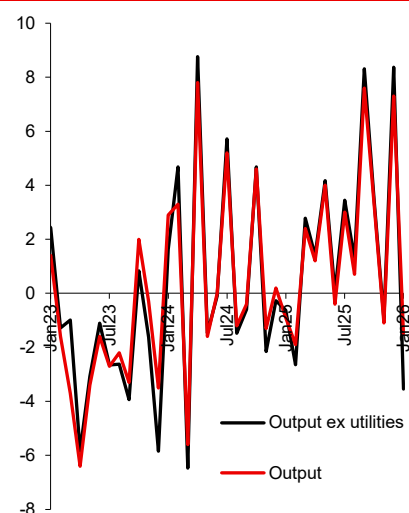
A winter break in the housing market

The number of dwellings completed in January stood at 14.7k and was around 8% (1.3k) lower than in January 2025. The year-on-year decline in completed dwellings, alongside the slowdown in growth from 15.3% y/y in December and around 15.8% y/y in the whole of Q4 2025, can be linked to unfavourable weather conditions. Growth rates also fell sharply for building permits issued, from 20% y/y in December to -12.3% y/y in January, and for housing starts, from 4.2% y/y to -28.4% y/y.

As a result of weather-related weakness in construction activity, the number of dwellings under construction remained broadly unchanged at 835.9k, around 2.4k fewer than in December. Its growth rate continued the gradual deceleration observed since late 2024, easing from 0.4% y/y in December to 0.0% y/y in January.

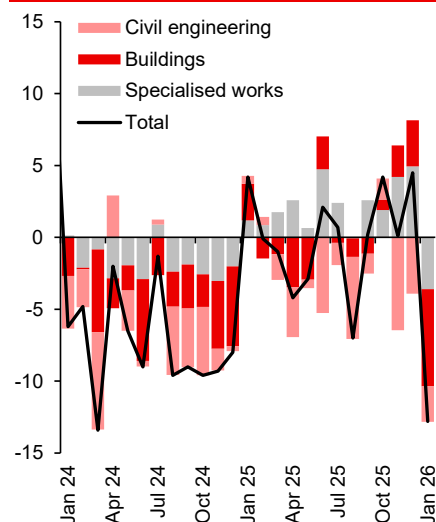
Weather-driven distortions make it difficult to assess whether, and to what extent, the housing market is still experiencing the slowdown seen in earlier months, and whether the December uptick in the growth rates of building permits and housing starts was a one-off or the beginning

Industrial output, % y/y



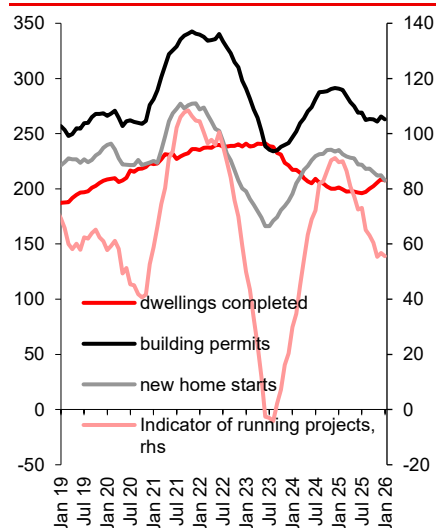
Source: GUS, Santander

Construction output, breakdown, % y/y



Source: GUS, Santander

Housing market, 12-month moving sums, thousands



Source: GUS, Santander

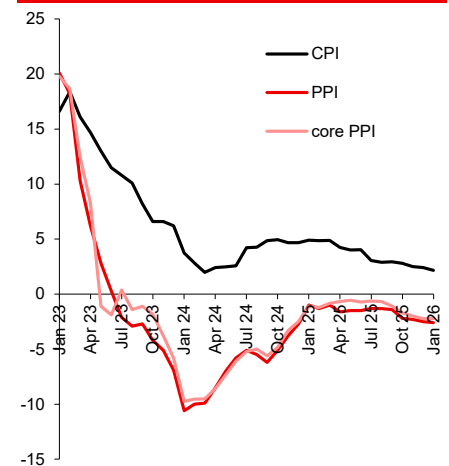
of a broader response to rising demand visible in credit data. The coming months should bring greater clarity. Nevertheless, we expect that over a horizon of several quarters, stronger housing demand should translate into a renewed increase in activity in residential construction.

PPI inflation still below forecasts

PPI inflation fell in January to -2.6% y/y from -2.5% y/y in December, slightly below our forecast (-2.5% y/y) and the market consensus (-2.3% y/y). On a monthly basis, prices declined by 0.3% m/m after a 0.4% m/m drop a month earlier, driven by lower prices in manufacturing and in the electricity, gas and steam supply sector (down 0.3% and 1.1% m/m, respectively). These decreases were partly offset by higher producer prices in mining (up 1.3% m/m) and water supply (0.3% m/m). Within manufacturing, the sharpest declines were recorded in clothing production (-1.4% m/m), tobacco products (-1.3% m/m) and beverages (-0.9% m/m). Prices increased in printing (0.8% m/m) and to a small extent ($0.1\text{--}0.3\%$ m/m) also in metals, other transport equipment and wood products. Core PPI inflation (excluding mining and oil refining) stood at -2.2% y/y, unchanged from the previous month.

The stronger zloty supported lower PPI inflation despite slightly higher global oil prices compared to the previous month. PPI inflation continues to surprise to the downside, which should help keep CPI inflation low over the coming quarters.

Price indices, % y/y



Source: GUS, Santander

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