21 April 2022

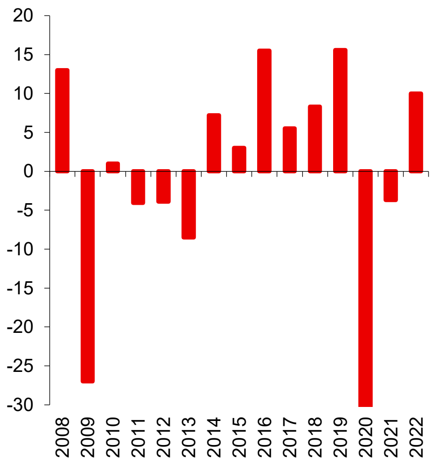
Economic Comment

Strong set of March data

Piotr Bielski, +48 691 393 119, piotr.bielski@santander.pl
Marcin Luziński, +48 510 027 662, marcin.luzinski@santander.pl
Grzegorz Ogonek, +48 609 224 857, grzegorz.ogonek@santander.pl

Strong set of monthly economic data for Poland released today: industrial production maintained rapid pace in March despite war in Ukraine (17.2% y/y s.a.), employment rose, wages accelerated (12.4% y/y), PPI surged (20% y/y), consumer confidence improved a little in April after an earlier decline. In general the data confirm the resilience of Polish economy at the very start of war in Ukraine, although there are some caveats as the production growth is artificially boosted by 77% y/y jump in energy output (we think it is a statistical error related to problems with deflators, as Polish power industry does not even seem to have enough capacity for such a jump in production). It is still too early to see the full impact of the war on economic activity (even though manufacturing did slow a bit) and we think the following months will show some slowdown after the shocks will channel through the supply chains and demand. Still, the current data add arguments for continuation of monetary tightening. The flash CPI data for April will be key for MPC decision in May - if it surprises to the upside again, another big rate hike would be likely. Still, our current forecast assumes CPI stabilisation near 11% and in such case we think that more likely is that the MPC will revert to +50bp rate hike at the nearest meeting.

Employment growth in March, thousands



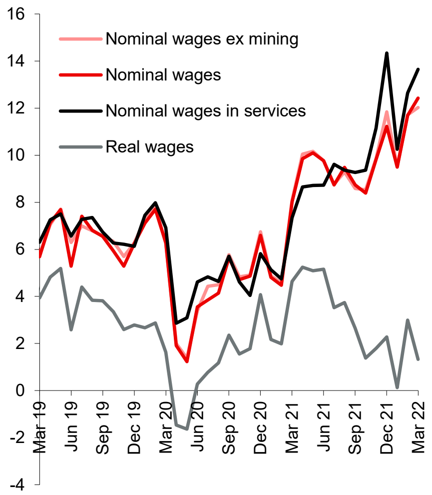
Source: GUS, Santander

Labour market surprising to the upside

Employment increased by 2.4% y/y in March, in line with market expectations and slightly higher than we assumed (2.3% y/y). In monthly terms employment advanced by 10k, which is a fairly strong number and can be broken down into manufacturing (3k), transport, administrative and supportive activities, information and communication (2k each), construction (1k). Clearly, there is no clear-but effect of war in Ukraine and massive migration than followed. On one hand, construction, manufacturing and transport did not report declines despite outflow of workers back to Ukraine (this however can take same time before becomes visible). On the other hand there was no major jump in restaurants and hotels or administrative activities, which supposedly hired inflowing immigrants.

Wages accelerated to 12.4% y/y in March, beating expectations (we and consensus: 10.6% y/y). A part of this effect was generated by mining, which accelerated to 30.4% y/y from 13.1% y/y in February (we guess this is effect of wage hikes in JSW and KGHM), but in general the upward wage pressure is broad-based, with wages ex mining accelerating to 12.0% y/y from 11.7% y/y and wages in services accelerating to 13.6% from 12.6% y/y. Interestingly, wages manage to remain positive in real terms, despite a strong and dynamic surge in inflation and we think this is a strong indication that wage-price spiral is already strong. We think that accelerating inflation and war-related disruptions are likely to fuel wage pressures even more in the months to come.

Wage growth, % y/y



Source: GUS, Santander

Industry accelerated, but detailed numbers are not that optimistic

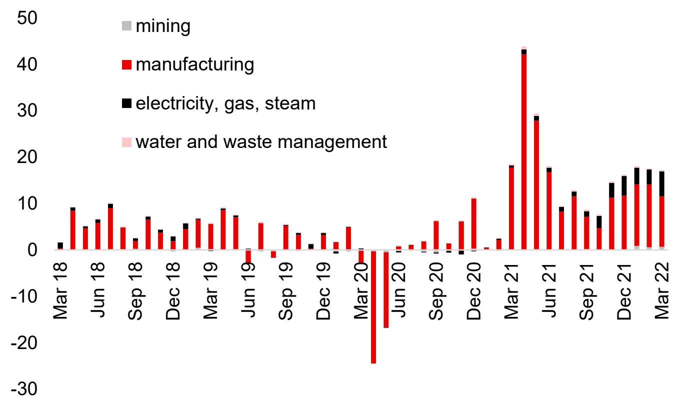
Industrial output increased 17.3% y/y in March, vs our forecast 13.9% and market consensus 11.6%. This is the seventh consecutive positive surprise. Seasonally adjusted output increased 2.1% m/m, the same as in February which is a very high pace for Polish industry. This is the first release with the full month affected by the war in Ukraine but there does not seem to be strong evidence of a loss of momentum.

However, once again the headline output growth was exceptionally strongly boosted by the utilities sector (the highest contribution on record, +5.4pp) showing a rise of production of electricity, steam and heat by 77.4% y/y (vs. the previous five prints at c.40% y/y on average) – we are concerned whether GUS is accounting for price changes correctly, as data on energy production do not show such a high volatility. Polish power industry does not even seem to have enough capacity for such a jump in production.

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 22 534 18 84

Contributions to y/y industrial output growth, pp



Source, GUS, Santander

Some signs of slowdown have already been seen in manufacturing. The output in manufacturing alone did slow down to 12.4% y/y from 15%+ in January and February but is still better than the 4Q21 average growth. The decline in car manufacturing by 12.7% m/m was a result of closed factories due to lack of components normally imported from Ukraine.

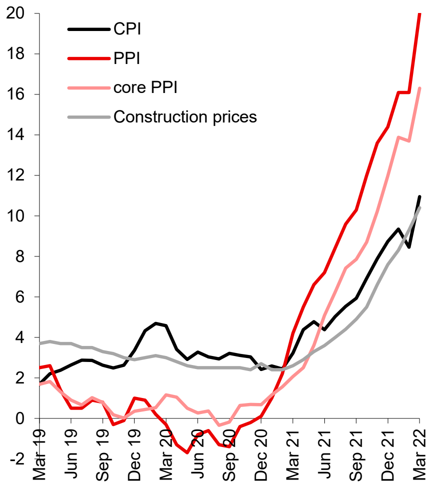
Spike in PPI

PPI growth surged 20% y/y in March, well above expectations (we and market: 18.1% y/y) and up from 16.1% y/y (revised up from 15.9%) in February. Prices jumped almost 5% m/m, the most since early 90s, boosted by spike in energy production (9% m/m) but also in other core categories (manufacturing +4.3% m/m). The data confirm the continuing strong cost pressure on producers, which has been magnified after the Russian invasion on Ukraine by a sharp jump in commodity prices and disruption of some critical supplies.
.

Consumers' expectations improved in April

The main GUS measures of consumer confidence improved in April but are still very far from any levels we could call consumer optimism. Current situation index rose somewhat from the fresh all-time low, but is still at the third lowest level ever (data collected since 2004). The expectations index rose a bit more thanks to better view of consumers on their future finances and on future economic situation (both components were also record low in March). In general, consumer sentiment remains negative and we believe that the hard data will follow with a meaningful slowdown in private consumption this year.

Price indices, % y/y



Source: GUS, Santander

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions. securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.
Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.