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Economic Comment

The economy turned colder in October

Marcin Luziński, tel. +48 510 027 662, marcin.luzinski@santander.pl
Grzegorz Ogonek, tel. +48 609 224 857, grzegorz.ogonek@santander.pl

Industrial output rose by 6.8% y/y in October, less than the market had expected (7.8% y/y) and close to our forecast (6.7% y/y). The slowdown in output may intensify significantly in the coming months. Employment surprised to the upside and rose by 2.4% y/y versus our and market forecasts at 2.2% y/y. While employment data for the entire corporate sector do not show much weakness, manufacturing has been in a free fall since May. Wage growth was weaker than expected and advanced by 13.0% y/y vs. market consensus at 13.9% y/y and our forecast 14.3% y/y (and compared to 14.5% y/y in September). Weak performance was visible in almost all categories. Weakness in wages is a very negative sign for private consumption in the upcoming quarters. PPI inflation eased in October more than had been expected: to 22.9% y/y from 24.6% y/y and may keep falling in the months to come.

Industrial slowdown at the start of 4Q

Industrial output rose by 6.8% y/y in October, less than the market had expected (7.8% y/y) and close to our forecast (6.7% y/y), down from 9.8% y/y in September. Manufacturing output growth decreased to 9.3% y/y from 11.0%, mining to 4.6% y/y (vs. 8.6% previously and above 20% y/y between June and August), while utilities recorded a collapse of output by 16.2% y/y due to high statistical base. In seasonally adjusted terms, industrial output was up 7.5% y/y, down from 10.3%, which is the weakest growth since February 2021. This translated to a mild decline in m/m SA terms, by 0.3%.

All main industrial groups showed relatively weak performance in m/m terms, compared to the seasonal pattern seen in previous five years. In y/y terms intermediate goods output was 5.6%, down from 6.9%, while consumer durables showed a 6.6% fall (previously -4.9% y/y, the fifth negative print in a row). Investment goods seem to remain in good shape (+26.4% y/y vs. 29.1% in September).

Most of the individual industries showed poor results in October when compared to seasonal patterns, in particular in basic metals and metal products, other non-metallic minerals and furniture (we believe it is linked to the weakness in construction output). Some industries were however weak m/m after unusually strong September (machinery and equipment, apparel, tobacco products and the automotive sector).

The Polish economy entered 4Q with decreased momentum and in the following months the slowdown in output may intensify significantly, with headline production growth possibly turning negative y/y already in December.

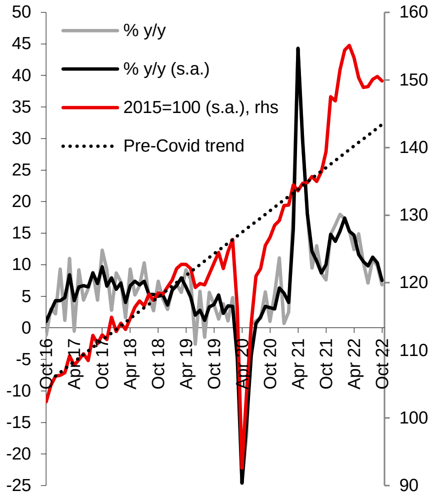
Employment doing well, but wage rise slower

Employment surprised to the upside and rose by 2.4% y/y in October versus our and market forecasts at 2.2% y/y. Let us remind that September data on employment (full-time equivalents) were weak, and we argued that the statistics on the number of employees did not decline, suggesting that the September weakness in employment data may have been due to temporary swings in the working time. October data seem to support this call.

In monthly terms, employment advanced by 7.1k FTEs and this was roughly in line with the seasonal patterns. Still, industrial manufacturing was clearly underperforming as it saw a decline by 0.5k versus October average at +3.0k. While employment data for the entire corporate sector do not show much weakness in the labour demand, manufacturing has been in a free fall since May. We think that the more sour business climate will weigh on the total employment in the months to come.

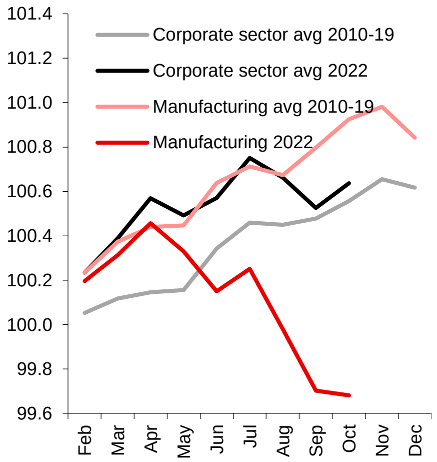
Wage growth was weaker than expected in October and advanced by 13.0% y/y versus market consensus at 13.9% y/y and our forecast 14.3% y/y (and compared to 14.5% y/y in September). Weak performance is visible in almost all categories, with wages ex mining slowing down to 12.7% y/y from 14.2% y/y and wages in services to 14.1% y/y from 15.4% y/y. Real wages declined by 4.2% y/y and this was the strongest drop since comparable data

Industrial output in Poland



Source: GUS, Santander

Employment data, January = 100



Source: GUS, Santander

Economic Analysis Department:

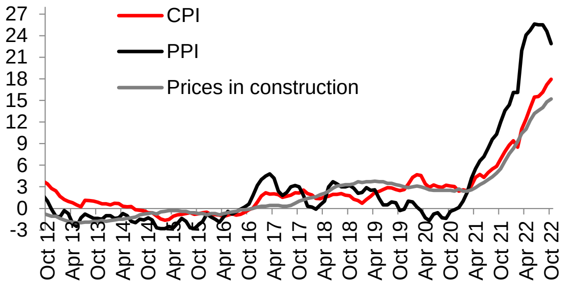
al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Jarosław Kosaty +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

are available (1997). We think the real wage growth is likely to remain negative at least for a couple of quarters. It seems that the high cost pressure on companies is translating into declining eagerness to hike wages and this in turn is a very negative sign for private consumption in the upcoming quarters. We would not rule out that the September's government's announcement of a strong hike in minimum wage (16.0% in January 2023 and then 3.0% in July 2023) gave companies an argument to postpone or decline wage increases in the final months 2022. Upcoming data will be a test for this call.

PPI inflation surprised to the downside again

PPI inflation eased in October more than had been expected: to 22.9% y/y from 24.6% y/y vs. market consensus and our forecast both at 23.5% y/y. All four main categories showed weaker y/y growth. Manufacturing PPI went up by 1.4% m/m which should be considered a sign of high inflationary pressure, but given a huge 1.9% in October 2021 it was not enough to prevent a decline of y/y growth in this category. Our estimate of core PPI (ex components directly linked to global commodity prices) is 20.3% y/y for October, down from 21.8% y/y (the second fall in a row, and its second fall since September 2020).

Inflation in Poland

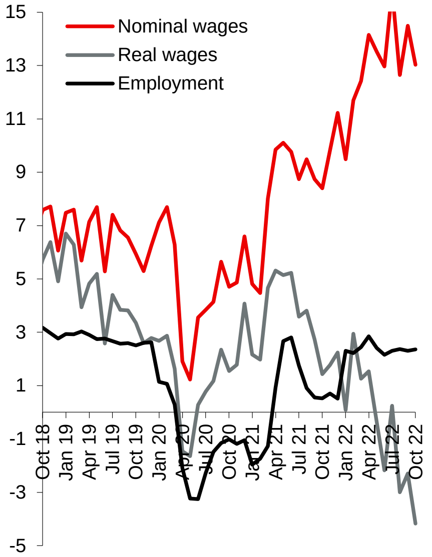


Source: GUS, Santander

We think that PPI inflation may keep falling in the months to come, getting below 20% y/y early next year and below 10% y/y possibly by the middle of 2023 unless there is renewed cost push from global commodities.

Construction output prices rose in October by 15.2% y/y, which is the strongest rate since early 1998, and the m/m rise at 1.3% was higher than the 3Q average, showing no decrease of the inflationary pressure in the sector.

Labour market statistics, % y/y



Source: GUS, Santander