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Economic Comment

Weaker production, stronger wages

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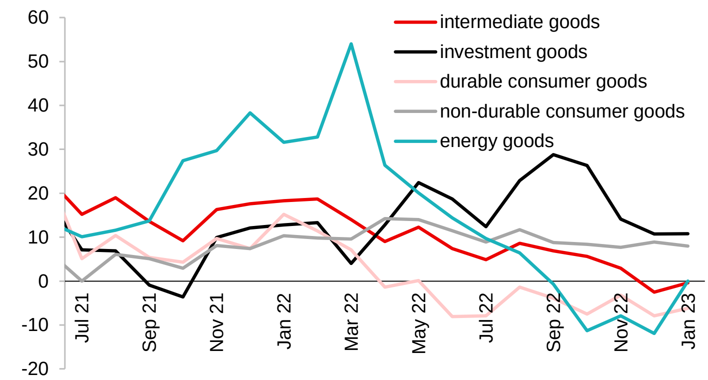
Industrial production grew by 2.6% y/y in January, below expectations. Employment growth was also lower (1.1% y/y), while wage growth turned out to be quite good (13.5% y/y), and the fall in PPI inflation (to 18.5% y/y) was slightly smaller in scale than expected. Data coming from the economy are still ambiguous, but they fit into the scenario we expect: 1Q23 is likely to be the lowest point in this business cycle, and some gradual acceleration should follow. This will be accompanied by disinflation, which, however (due to the labour market situation, among other things), may not be fast enough to justify interest rate cuts before the end of this year.

Weakest January in employment in years

Industrial output rose by 2.6% y/y in January, more than in December (1.0% y/y) but 2.0 percentage points below market expectations. The reading looks even worse in seasonally adjusted terms, once the effect of two extra working days is removed: annual output growth was only 0.3% y/y (the worst print since mid-2020) after a 1.3% m/m drop.

The output of consumer durables and intermediate goods kept falling y/y, although a bit less than in December, while investment goods and consumer non-durables continued to rise at a decent pace (10.8% y/y and 8.0% y/y, respectively). The industries whose output look well compared to the usual seasonal pattern were mining, production of pharmaceutical products, machinery and equipment and transport equipment excluding cars. We see the performance of the following industries as relatively poor in January: textiles and apparel, production of metals, cars, beverages, tobacco products (these were also sticking out negatively in December) plus production of chemicals.

Industrial output by main industrial groupings, % y/y



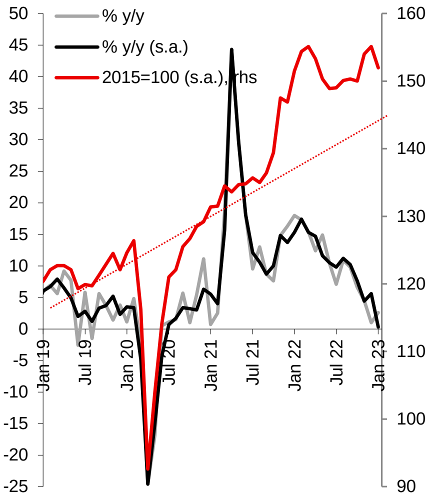
Source: GUS, Santander

The real data for January leave us with a sense of disappointment given the strong rebound in manufacturing PMI. Add to this high statistical base from 1H22 and we see industrial production growth turning negative for a couple of months. At the same time we feel that with energy crisis not materialising in Europe and without the supply-chain issues, the Polish industry is likely in general to show a solid rebound this year.

Weakest January in employment in years

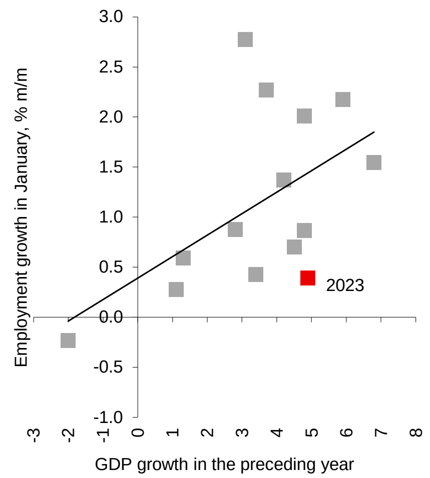
Employment in the corporate sector rose by 1.1% y/y in January, vs our expectations at 2.0% y/y and market forecasts at 1.8% y/y. Note that January data is under impact of annual revision in surveyed companies, so it is reflecting average trends from 2022 rather than from January 2023. Still, the numbers were weak across the board. Change in total employment amounted to 0.4% m/m, which was the worst since 2021 and second worst in the 2015-2021 period.

Industrial production in Poland



Source: GUS, Santander

Change in corporate sector employment in January vs GDP growth in the preceding year, % y/y



Source: GUS, Santander

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Change in manufacturing employment amounted to 0.3% m/m, which was the weakest since 2012. However, we have highlighted the weak labour demand in manufacturing for some time already, but this time also other sectors fared rather poorly. Change in employment in construction amounted to -1.3% m/m, the weakest since 2015; in trade to -0.4% m/m (the weakest since pandemic 2021 and second worse in 2000-2021 period); in transport to +1.4% m/m (the weakest since pandemic 2021 and second worse in 2008-2021 period).

These numbers confirm that the labour market was losing its momentum in 2022. We are expecting these trends to hold in the upcoming months.

Wages remain strong

Wages rose by 13.5% y/y in January as compared to our expectations at 13.8% and market consensus at 12.7%. In real terms wages declined by 3.1% y/y. Wages ex mining rose by 13.5% y/y vs 10.1% y/y in December, wages in services advanced by 15.0% y/y vs 11.2% y/y in December.

The strong January result comes after disappointing December reading (10.3% y/y), which we think was caused by one-off factors, like working day effect, lower annual bonuses or shifts in payment dates. Moreover, in January the minimum wage went up by 16% to PLN3490 from PLN3010 and some employers could have delayed wage hikes at the end of 2022, in order to wait with salary scheme updates for the new minimum. Hike in minimum wage was obviously another factor adding to wage growth in January. We think that minimum wage hike will add about 2pp to this year's average wage growth.

Monthly rise in wages was quite strong in restaurants/accommodation, which use minimum wage relatively often than other sectors (over 40% employees are paid minimum). But on the other hand, rise in construction was paltry (over 30% employees earn minimum rate).

We think that an acceleration in wage growth is not probable in the months to come, given weaker labour demand. Still, wage growth is likely to remain in double-digits. The real wage growth is likely to remain in the negative territory until 2H23 or even 4Q23.

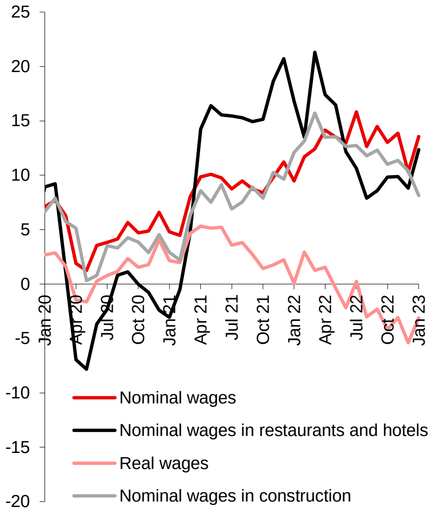
PPI inflation showed a smaller decline that we had envisaged

PPI inflation eased in January to 18.5% y/y from 20.5% (there was an upward revision of December from 20.4%). This reading is marginally above market median (18.4%) and higher than we had thought (18.2%), and follows similar upside surprises in PPI prints from Germany or the USA. Prices in mining and utilities rose more than we has assumed (up 8.6% m/m and 4.1%, respectively). Prices in manufacturing fell for the third month in a row (this time by 0.4%) while we had expected to see higher price lists with the start of the year (as was the case in the previous two Januaries), to make up for the highly rising production costs. Our measure of core PPI inflation (excluding price moves in mining and oil refining) dropped in January to 18.1% y/y from 19.1% in December, and having peaked in August last year at 22.3% y/y.

We believe that PPI inflation may turn single-digit in y/y terms in spring and stabilise around 5-6% y/y in 2H23.

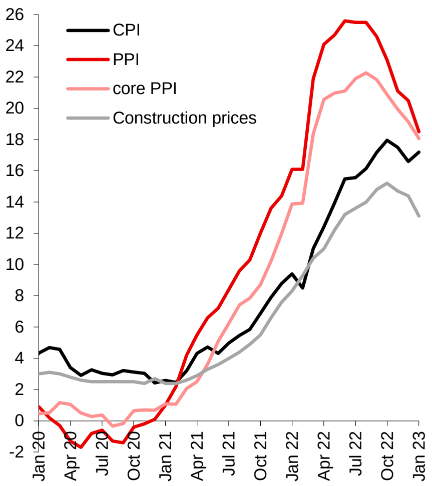
The annual growth rate of construction output prices fell in January to 13.1% y/y from 14.4%. This was its third decline (it peaked in October at 15.2% y/y), but this time noticeably faster than the previous ones. On a monthly basis, prices did not increase at all - which happened for the first time since June 2017.

Wages in the corporate sector, % y/y



Source: GUS, Santander

Inflation in Poland, % y/y



Source: GUS, Santander