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Economic Comment

Strong wage growth, output surprised with a decline

Bartosz Białas, tel. 517 881 807, bartosz.bialas@santander.pl

Marcin Luziński, tel. 510 027 662, marcin.luzinski@santander.pl

Grzegorz Ogonek, tel. 609 224 857, grzegorz.ogonek@santander.pl

Industrial production unexpectedly fell by 0.7% y/y in November and by 0.3% m/m in seasonally-adjusted terms. Several export industries dragged the result down, and until we see a recovery in Europe, the output momentum is likely to linger around zero. PPI inflation also surprised downwards, sliding to -4.7% y/y. Data from the corporate sector showed a further gentle decline in employment (-0.2% y/y) and a strong wage growth (11.8% y/y). Agricultural prices rose by 0.4% m/m in November. The behaviour of consumer sentiment continues to point to a further recovery in consumption.

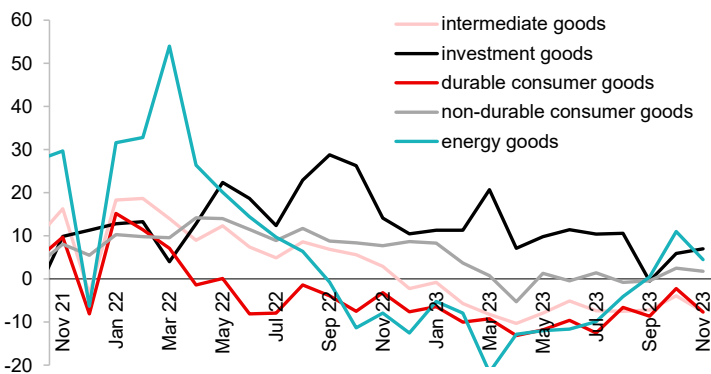
Surprise fall of industrial output

In November Polish industrial output fell by 0.7% y/y against expectations for a rise by 0.8% y/y and our forecast at +1.4% y/y. The print comes after October's +1.9% y/y (upward revision from 1.6% y/y). The downward surprise can mostly be blamed on manufacturing, which declined by 2% y/y, while we had thought that its growth rate would stay above zero. In seasonally-adjusted terms industrial output was down by 0.3% m/m, after possibly some minor rise in October and two strong prints before that, worth 1.6%, taken together.

The decline in manufacturing covered intermediate goods (down 7.6% y/y) and consumer durables (down 7.7% y/y) while investment goods output rebounded to +7.0% y/y and the growth of consumer non-durables remained positive (+1.8% y/y). The performance of the industry as a whole continues to be strongly negatively affected by the situation in electrical equipment, computers and electronics, machinery and equipment – industries dependent on foreign demand. Their combined contribution to the annual growth of total production was -2.2 percentage points, compared to -1.3 percentage points previously. In contrast, the production of other transport equipment, tobacco products, medicines and clothing performed quite well in November.

As there are still no clear signs of revival in the European economy we expect the next few prints of Polish industrial output to oscillate near zero y/y while systematic rise could come in the spring. 2024 Average production growth next year should be positive, but probably no higher than 5%.

Industrial output by main groupings, % y/y

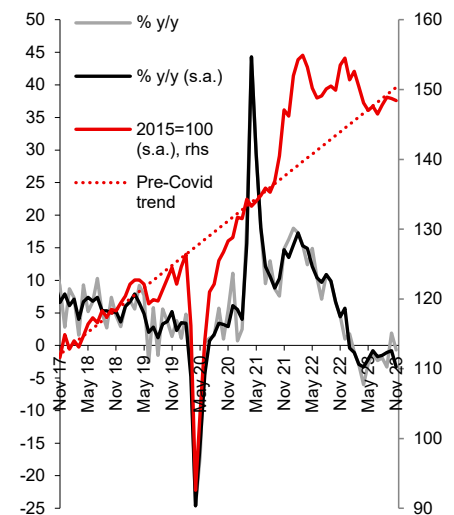


Source: GUS, Santander

Employment as expected, wages remain solid

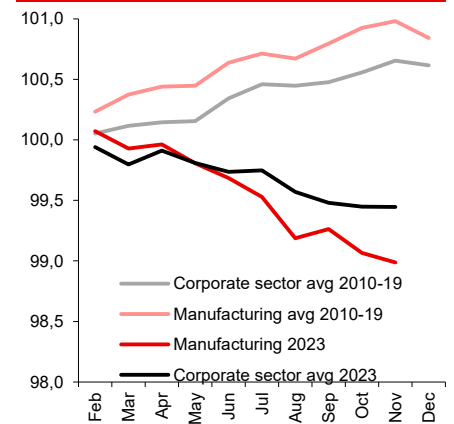
Employment declined in November by 0.2% y/y, in line with both our expectations and the market consensus. In monthly terms, the number of full-time equivalents (FTEs) remained almost unchanged (recording only a marginal decline by 0.1k FTEs). Employment in manufacturing continued its gradual decline though at slower pace than we expected,

Industrial production in Poland



Source: GUS, Santander

Employment in the corporate sector, 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 +48 691 393 119

Bartosz Białas +48 517 881 807

Cezary Chrapek, CFA +48 887 842 480

Marcin Luziński +48 510 027 662

Grzegorz Ogonek +48 609 224 857

falling by 1.9k FTEs and accounting for the majority of the overall decline in the industrial sector (-2.1k FTEs). Lower employment was also registered in transport and storage (-1.1k FTEs) and in construction (-0.4k FTEs). However, almost all of the negative impact on the overall measure was offset by a 2.6k increase in trade and vehicle repair, as well as a 0.9k increase in other sectors. Annual employment growth will likely remain slightly below 0% y/y also in December, but should return to positive values as the economy will continue rebounding.

Wage growth remained at double-digits, printing 11.8% y/y after 12.8% in October, 0.2 pp above our forecast and 0.4 pp above the consensus. This corresponds to another solid increase in real wages, this time by 4.9% y/y, 0.3 pp more than we expected. Wage dynamics in most sectors were close to our forecasts, with notable exception being the water supply sector, where wages grew 24.1% y/y (10.0 pp more than we anticipated), which was responsible for the majority of the positive surprise in the overall gauge. In the mining sector, wages rose by 17.7% y/y, more than usually in November, which might have been caused by one of the major mining enterprises paying out December bonuses already in November. We estimate that wages ex-mining rose by 11.5% y/y and wages in services by 11.1% y/y. According to our projections, wage should continue growing at double-digit pace over the next months, resulting in an over 10% average wage growth in 2024, which should further stimulate consumption.

Consumer sentiment keeps signalling positive consumption outlook

December edition of Polish consumer confidence survey revealed some cautiousness regarding large expenditures, but also a continued rise of optimism when it comes to households' future financial situation and the economic outlook. The aggregate index of current situation did not improve m/m for the first time since November 2022 (-15.2 pts in Nov'23 vs. -15.1 pts previously, this is still 1.0 pts above the historical average). The aggregate expectations index kept pushing higher, to -6.4 pts (12.3 pts above the historical average).

Consumers' opinion about their current own finances was a bit less positive m/m and there was some negative adjustment of the major purchases index and in the ability to save money. At the same time consumers were a bit less worried about job security and their inflation expectations declined (possibly on information about the temporary extension of zero VAT on food and the energy price freeze next year).

We expect that new transfers scheduled in 2024 (800+) and wage hikes (minimum wage, public sector) will allow for a further improvement of sentiment in among consumers. The December consumer sentiment report is consistent with a story of further private consumption revival in Poland.

PPI inflation lower than expected

PPI inflation eased to -4.7% y/y in November from -4.2% y/y in October (revised data), which was markedly below forecasts (us: -3.7% y/y, market: -3.8% y/y). On a monthly basis, industrial prices fell by 0.8%, with mining down by 1.7% m/m and manufacturing down by 0.3% m/m, including coke and oil processing up by 3.9%. The fall in prices was mainly due to lower commodity prices on global markets, and the strengthening of the zloty.

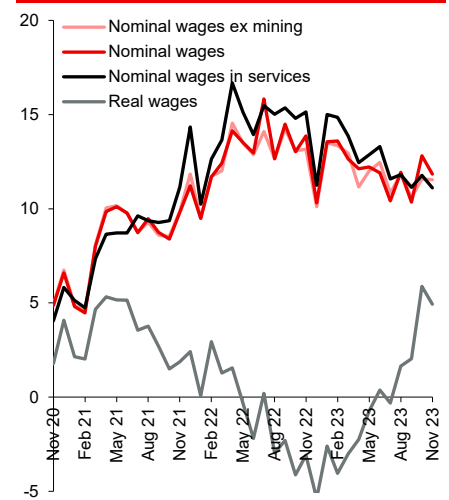
We estimate that the core PPI (excluding mining and coke processing) decreased to -3.1% y/y from -1.6% y/y a month earlier. We expect further reductions in industrial prices in the coming months. We expect the high base effect from the beginning of 2023 to trigger a pronounced decline in the annual PPI in the first months of 2024.

Construction prices rose by 0.5% m/m, which is slower than in previous months (0.6-0.7% m/m), but nevertheless the momentum remains elevated. In annual terms, price growth was 8.0% y/y.

Agricultural prices up slightly

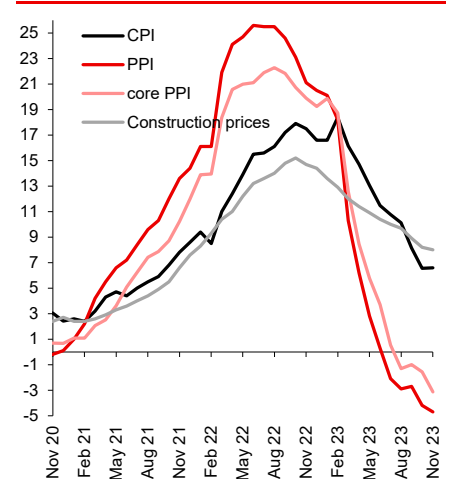
Prices of agricultural products increased by 0.4% m/m in November and recorded a decrease of 18.6% y/y in annual terms. Meat prices continued to fall, with a rebound in milk and potato prices and mixed trends in cereals (maize and oats up, wheat and rye down). After strong declines in the first half of this year, agricultural prices have been roughly stable or showing a slight increase for several months now, supporting our forecast for retail food prices to stabilise at around 4% y/y next year (assuming constant VAT).

Wage in the corporate sector, % y/y



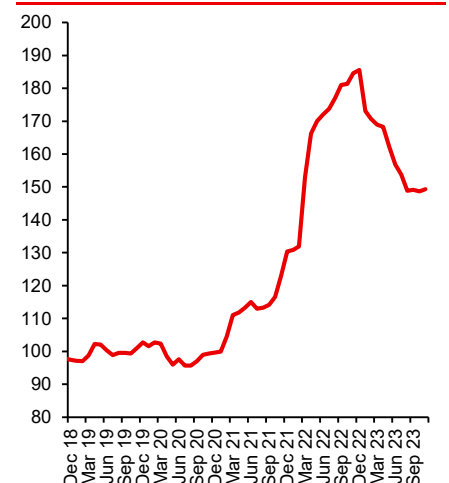
Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, NBP, Santander

Prices of agricultural products, index



Source: GUS, NBP, Santander

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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>.