22 May 2024

Economic Comment

Mighty return of industry, consumers have doubts

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The first set of real economic activity data for April, on the one hand, alleviated the concerns triggered earlier by the dramatic fall in production in March (and now industry beat expectations with a 7.9% y/y result), but on the other hand, it intensified other concerns - about the resilience of the labour market (employment surprised with a 0.4% y/y fall, wages slowed to 11.3% y/y instead of accelerating to 12.5% y/y). May economic surveys generally suggest that businesses are still gradually gaining optimism, while consumers have doubts in the face of a new wave of inflation and layoffs in some sectors. The data support our scenario of an economic rebound, but suggest caution in assessing how strongly consumption may rebound in the near term. The MPC is likely to acknowledge the lower-than-expected wages, but in our view the April result does not undermine the prospects of double-digit annual wage growth throughout this year.

Scary March output decline followed by a massive rebound in April

Industrial production in April soared 7.9% y/y, beating the most recent Bloomberg consensus at 5.1% and our forecast at 6.8% y/y. Such a print shows that the very poor result seen in March (-6.0% y/y, now revised to -5.4%) was rather a temporary blip than a persistent negative change in the trend.

The manufacturing recorded 8.2% y/y jump in production, its highest since October 2022. Both March and April were under strong calendar effects: in March the number of working days was lower by two, and in April higher by two than in the corresponding period of the previous year, which means that the y/y prints for both months should be taken with a pinch of salt. After the suspiciously large declines present in almost all sectors, in April there was an equally broad-based rebound, which we treat as a confirmation that the calendar effects had key impact on these results.

The data adjusted for seasonal and calendar effects showed 7.0% m/m rise in production, which more than offset the decline reported in March and seems to be consistent with a gradual recovery trend in Polish industry observed since mid-2023. Overall, it seems that the weakness of external demand, resulting mainly from economic stagnation in Germany, is still a drag for Polish industry, however we believe that the situation should gradually improve over time, as the signs of turnaround in global manufacturing are already on the horizon.

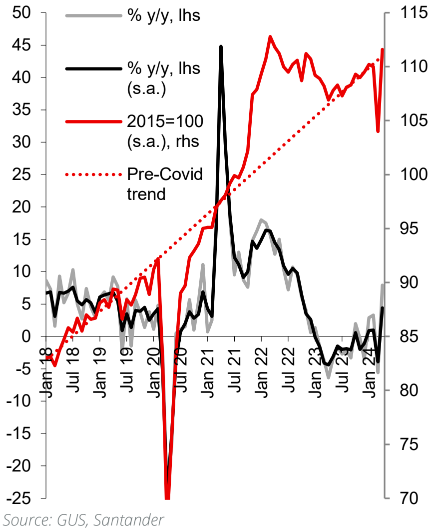
Employment below forecasts and is weaker than in 2023

Employment surprised to the downside in April, showing -0.4% y/y vs our and market expectations at -0.3% y/y and the March result at -0.2% y/y. In monthly terms employment was roughly flat (-1.8k jobs or 0.0% m/m), but April usually sees an increase.

Manufacturing underperformed again, shedding 1.9k jobs, but trade and information/communication disappointed as well reducing its workforce by 1.4k and 0.8k jobs, respectively. On the other hand, employment rose in construction (+1.0k), professional and scientific services as well as in restaurants and hotels (both +0.8k).

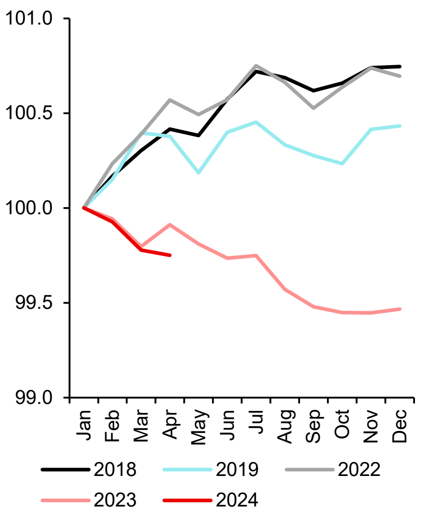
While first three months of 2024 saw a performance similar to 2023, April proved markedly weaker than a year ago. The demand for labour remains muted and we think it may need a couple of months to see some stronger momentum stemming from the ongoing economic recovery.

Industrial production in Poland



Source: GUS, Santander

Employment, January = 100



Source: GUS, Santander

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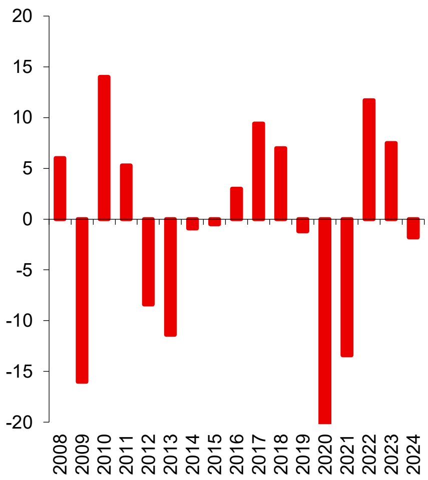
Wages rise slower, mostly due to services

Wages slowed down to 11.3% y/y in April from 12.0% y/y in March versus expectations of an acceleration to 12.5% y/y. Real wages slowed to 8.7% y/y from 9.8% y/y. Wages ex mining slowed to 11.8% y/y from 12.1% y/y, while wages in services to 10.9% y/y in 12.2% y/y.

While wages were quite in line with our expectations in big sectors, like manufacturing (12.8% y/y vs 10.7% y/y in March), construction, trade or transport, downward surprises predominated in smaller branches, especially in utilities, restaurants and hotels, administrative and supportive activities or agriculture and forestry. The latter sector has clearly seen a shift in bonus payments to March from April, which moved the headline wage growth by 0.2 percentage points, even though this sector has a tiny share in total employment (below 0.5%).

We think there were some one-off factors in play, especially shifts in bonus payments, that led to the situation that a stronger March was followed by a weaker April. We still think that annual wage growth should hold at double-digit levels for the rest of the year. Amid contained inflation, this means positive real wage growth, which will be supportive for consumption. Still, the peak in real wage growth is probably already behind us. Should the weakness in services continue in the coming months, this might mean lower pressure on core inflation.

Employment change in April, thousands



Source: GUS, Santander
Note: the Y axis was cut off at -20k, so it does not fully capture the decline in employment in 2020.

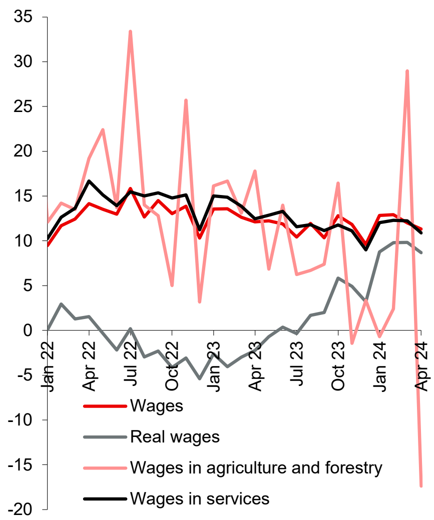
Growth of producer prices slows down, though not as much as expected

In April, the pace of producer price declines decelerated to -8,6% y/y from downwardly-revised -9.9% y/y in March. Due to the revision, which took 0.3 percentage points from the March print, the April annual price growth came in 0.3 pp below our forecast and 0.4 pp below the consensus. The revision mainly affected data from the manufacturing sector, where price dynamics were 0.4 pp lower in both monthly and annual terms than initially estimated. As a result, instead of a clear rebound of annual producer price growth, according to the newest data, March saw only its marginal uptick, by 0.1 pp.

As to the April print, monthly price growth accelerated to 0.2% from -0.5% in March, 0.1 pp more than we expected. The surprise stemmed mainly from higher-than-anticipated price dynamics in mining and energy production sectors.

Overall, despite the revision, the general picture remains unchanged: the local minimum of PPI inflation is behind us and from now on producer price growth should continue to accelerate, supported – among other factors – by recovering demand. We expect that at the end of the year PPI inflation should return to positive values, reaching a rate slightly above 0% y/y.

Wage growth, % y/y



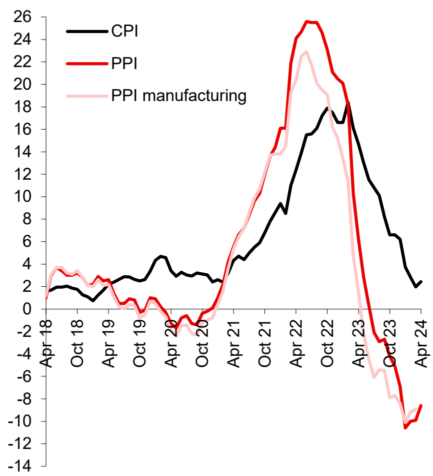
Source: GUS, Santander

In May, Polish consumers were a tad less optimistic

The current assessment index dropped to -13.8 pts from -11.5 pts, but it is still above the long-term average (20 years of data). The expectations index fell to -8.2 pts from -6.8 pts, which also leaves it some 10 pts above the historical average. Significant declines were seen in the index of future own financial situation (the lowest since August 2023), attitude towards major purchases (the drop more than offset the two previous increases), and perception of current economic situation (worsened by less than the April improvement). Also, the index of job security went down for the fourth month in a row and is now the lowest in a year. Despite some worries about their finances, consumers signalled a bit more often that they will likely save some money in the next 12 months.

The May deterioration of consumer sentiment may have come from the news flow regarding energy prices (the price freeze expires with the end of June) and the delayed transmission of the reinstated VAT on food by retailers. Along some worries expressed in the May edition there was also another rise of inflation expectations, with the index reaching the highest level since early 2023, which may also have negatively affected other sub-indices. Real income of Polish households keeps going up, which should eventually lead to more optimism, but for the time being consumers still seem cautious.

Inflation, % y/y



Source: GUS, Santander

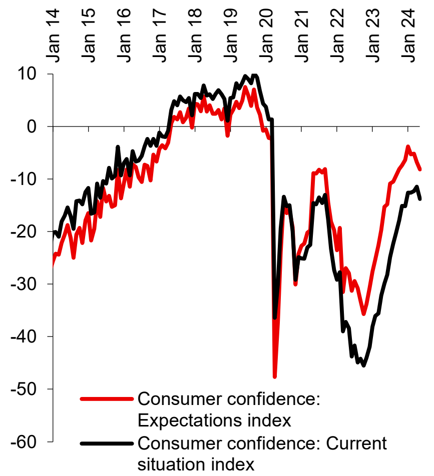
Business sentiment – important improvement in industry and transport

Business climate generally improved in May. Sectoral seasonally adjusted indices mostly rose m/m. Industry partially offset the sudden April collapse in sentiment, but given the gradual improvement in earlier months its 3M change is back to zero and year-to-date change is positive again. The transport sector also showed a significant improvement after three months of declines. The optimism in industry and transport was related to better assessment of current situation.

Hotels and restaurants saw the largest deterioration of all reported sectors for the second time (but expressed more optimism regarding future business conditions). Retail trade stayed put when it comes to the level of business optimism (it does however stay above its long-term average for eight months now).

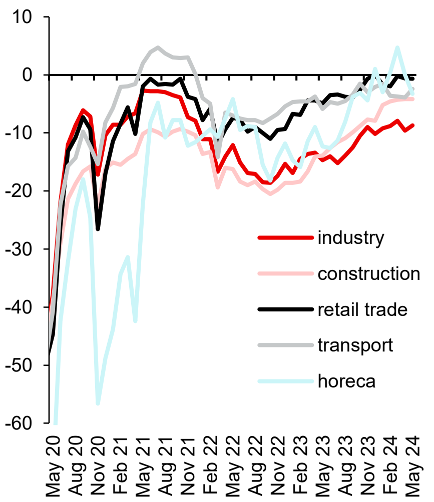
The data continue to point to ongoing economic rebound. There is no sign of an activity collapse in industry, on the contrary. On the other hand the consumer related sectors are not pushing higher month after month – while it does not derail our consumption recovery story for this year it does put some doubts about the pace at which it may occur.

Consumer sentiment, pts



Source: GUS, Santander

Business sentiment, pts



Source: GUS, Santander