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Economic Comment

Industry in the black again

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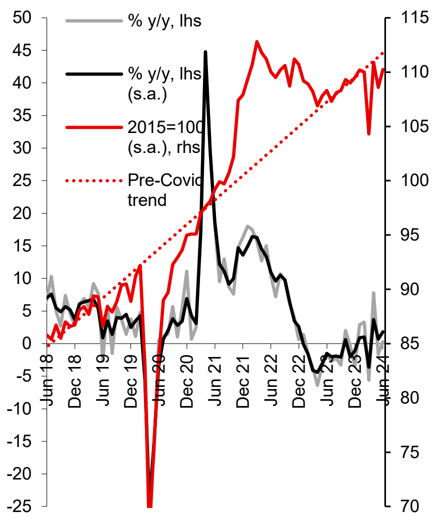
Industrial production recovered in June more than expected, to +0.3% y/y from -1.6% y/y, above market and our expectations, with seasonally-adjusted growth of 1.3% m/m. Improvement was recorded especially in sectors focused on the domestic market and on consumer goods. Wage growth weakened in June to 11.0% y/y from 11.4% y/y, contrary to forecasts betting on an acceleration. Weaker results were seen in the energy supply, construction and manufacturing. Real wage growth rate went down to 8.2% y/y from 8.7% y/y, thus still remained high in historical comparison. Annual employment growth rate rose to -0.4% y/y in June from -0.5% y/y in May. Decline of prices in industry slowed to -6.1% y/y from -7.0% y/y

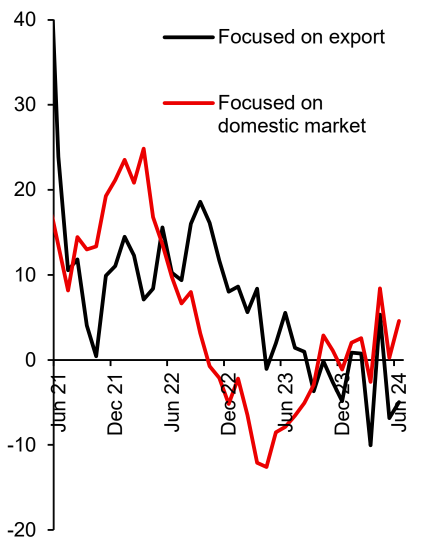
All in all data are quite positive and support our moderate optimism about industrial outlook in 2H24. As the labour market situation remains fairly positive and the economy accelerates, we assume that wages will continue to grow at a two-digit pace which – despite the rebound in inflation – will still yield a high real growth of households' incomes. Today's numbers do not change our view that the MPC will start the rate cutting cycle relatively late, at earliest in mid-25, but were good enough to trigger an upward correction in market rates.

Industrial production in Poland



Source: GUS, Santander

Industrial output in sectors focused on export and on domestic market, % y/y



Source: GUS, Santander

Industry in the black again

Industrial output improved in June to +0.3% y/y from -1.6% y/y in May (data revised by 0.1pp upwards) and beat expectations (us: -1.1% y/y, market: -1.5% y/y). Data corrected for seasonality printed +1.3% m/m after a decline by 2.1% m/m in May. Industry was able to secure a positive reading despite a negative working day effect (one day less than one year ago, same as in May). In 2Q24 industrial output expanded by 2.0% y/y after falling by 0.1% y/y in 1Q24.

Industry divided my main groupings showed that the most impressive improvement was recorded in consumer goods: durables advanced by 4.4% y/y after declining by 0.3% y/y in May, and non-durables by 3.3% y/y vs -0.5% y/y one month earlier. Supply goods output fell by 2.0% y/y after shrinking by 4.9% y/y in May, while investment goods went down by 3.0% y/y (-2.7% y/y in May) and energy-related goods rose by 5.3% y/y (6.4% y/y in May).

Mining production was roughly the same as in May and fell by 2.7% y/y (-2.6% y/y a month earlier), while water supply slowed to 4.3% y/y from 5.5% y/y, and power generation improved to +2.9% y/y from -2.8% y/y. The most important industrial sector, i.e. manufacturing, recorded an improvement to +0.1% y/y from -1.7% y/y. Improvement in manufacturing was pretty broad-based, it was somewhat more dynamic in sectors more focused on the domestic market, like manufacture of food, clothing, paper, chemicals, pharmaceuticals and basic metals. These results suggest in our view that the rebound of private consumption was the main factor supporting the domestic industry. Among exporting sectors manufacture of metal products and other transport equipment clearly stood out.

While June's upshot is a somewhat calming signal as regards shape of the domestic industry, note that recent leading indicators were rather disappointing as were the results of German industry. Thus, June's upward surprise is not making us more optimistic about the sector's outlook, but we still hope for some slight improvement in 2H24, especially thanks to stronger private consumption.

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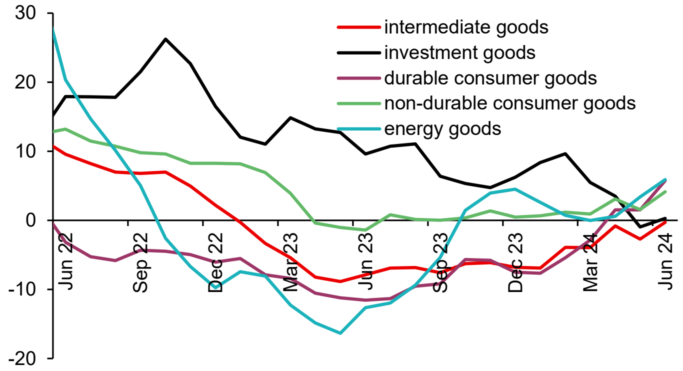
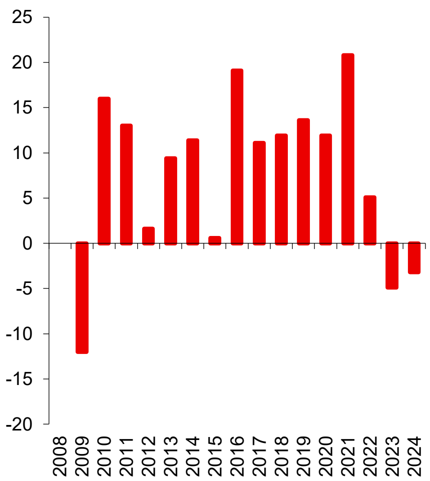
Industrial output in main groupings, % y/y, 3ma



Source: GUS, Santander

Employment change in June, thousands



Source: GUS, Santander

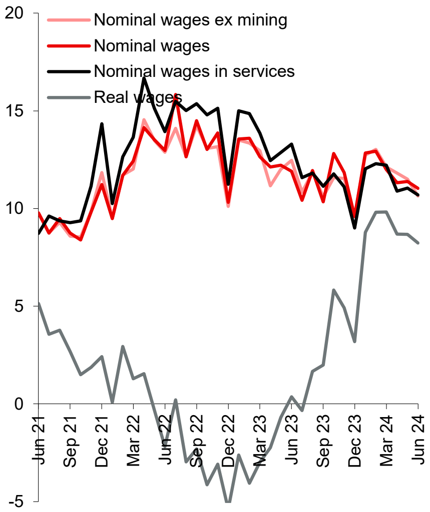
Minor changes in the level of employment

The annual employment growth rate rose from -0.5% y/y in May to -0.4% y/y in June, in line with the consensus and marginally above our forecast. In month-on-month comparison, the number of full-time equivalents remained almost unchanged, having decreased by only c. 3k. The overall result was higher than our estimate by only 2k FTEs and most of the numbers did not deviate much from our expectations.

The biggest reductions were recorded in manufacturing (-1.7k FTEs), transport and storage (-1.0k), as well as construction (-0.9k). Still, it is worth to note that most of the positive surprise compared to our forecast stemmed from the manufacturing, whose result, despite the decline, was by 3k FTEs better than we estimated.

We do not expect the number of employed to increase majorly in the following months, as the amount of available labour force is already limited and the unemployment rate is very low. Still, rebounding demand should have its effect on employment and allow its annual rate to return to positive values at the turn of the year.

Wage growth, % y/y

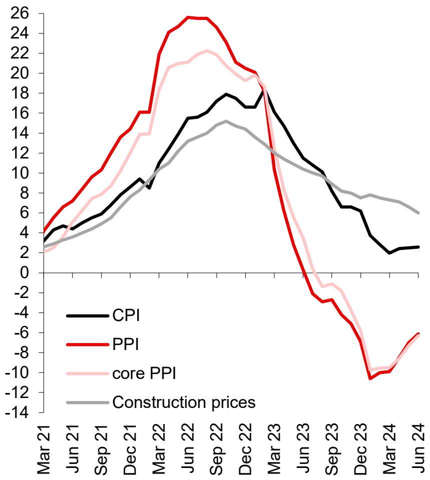


Source: GUS, Santander

Deceleration of wage growth

Wage growth decelerated from 11.4% y/y in May to 11.0% in June, below both our forecast at 11.7% y/y and the consensus at 11.5% y/y. The negative surprise meant that the real growth rate also declined, from 8.7% y/y to 8.2% y/y, but it still remains at an impressive level. The June print came in lower than we expected mainly due to weaker results in the sectors of energy supply, construction, and manufacturing. The last of them was also the main source of the annual rate's decline, together with the service sector. On the other hand, very strong acceleration of wage growth in the mining sector, from 7.0% y/y to 23.8% y/y, somewhat counterbalanced the negative developments. In effect, wages growth ex mining declined from 11.5% y/y to 10.6% y/y, and wage growth in services from 11.1% y/y to 10.7% y/y. Still, our forecasts suggest than for the rest of the year wage growth should remain in or very close to double digits.

Inflation, % y/y



Source: GUS, Santander

PPI rebounding slightly

The decline of prices in industry slowed in June to -6.1% y/y from -7.0% in May, a tad more than indicated by the market consensus (-6.3% y/y) and our estimate (-6.2% y/y). Producer prices rose 0.1% m/m, slightly more than we expected, mainly due to higher price growth in manufacturing (0.2% m/m), while price changes in other categories surprised slightly downward. GUS also revised the previous month's data, down in manufacturing and up in other categories, but this did not have a significant impact on the headline PPI. Core PPI inflation climbed in June to -6.4% y/y from -7.3% in May.

We expect further gradual acceleration of PPI inflation in the coming months in view of the receding effect of the zloty appreciation and the low statistical base stemming from earlier declines in commodity prices. With industrial demand still weak and slow recovery in manufacturing in Poland and Europe, companies are reluctant to raise prices. According to the latest NBP Quick Monitoring survey, companies expect a smaller scale of own price increases, while in manufacturing alone, the PMI report indicates a further decline in prices, which has been ongoing since April 2023. This suggests that the acceleration of annual PPI dynamics will be slow. We assume that annual price growth will rise above zero at the year-end.

In the construction sector, price growth remains elevated but decelerated in annual terms to 6.0% y/y from 6.6% in May, recording 0.3% monthly price growth.

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.