21 August 2024

Economic Comment

First data for July: not great, not terrible

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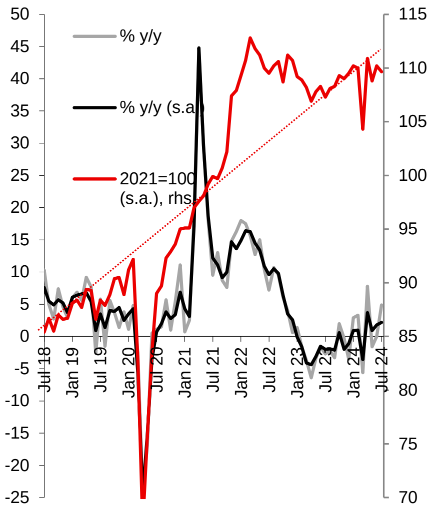
July industrial output disappointed with a 4.9% y/y rise vs. market consensus and our estimate at 7.5% y/y. There was also a downside revision of the previous print, to 0.0% y/y from 0.3% y/y. While it looks like a weak entry of the industrial sector into the third quarter, we highlight that the recent prints were generally deviating unusually strongly from market consensus both ways, changing the sign every month since March. This is why we do not feel that we should pay particularly high attention to the impression left by the July outcome. The c.2% seasonally adjusted annual growth may also be present, in our view, in the whole 2H24, which, given the broad sluggishness of the European industry may not be a bad outcome.

PPI inflation climbed in July to -4.8% y/y from -5.8% y/y in June (data revised from -6.1% y/y) vs our forecast at -5.3% y/y and market consensus at -4.9% y/y. We are expecting the PPI inflation to continue to go up in the upcoming months and to approach 0% at the year-end.

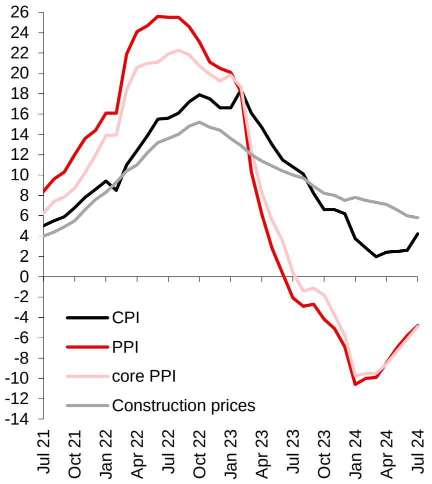
The growth rate of employment in the enterprise sector remained at -0.4% y/y in July, unchanged from June, in line with both the consensus and our forecast. Over the coming months, changes in the level of employment will likely be modest, as the amount of available labour force is already limited and the unemployment rate is very low. Wage dynamics fell from 11.0% in June to 10.6% y/y, a bit below the consensus of 10.8% y/y, but above our forecast of 10.2% y/y. Overall, although wage growth is gradually undergoing normalisation, it is still high and should remain in or very close to double digits for the rest of the year.

Industrial production in Poland



Source: GUS, Santander

Inflation measures, % y/y



Source: LSEG, Santander

Industrial output almost 5% higher than a year ago, put the appetite was for more

July industrial output disappointed with a 4.9% y/y rise vs. market consensus and our estimate at 7.5% y/y. There was also a downside revision of the previous print, to 0.0% y/y from 0.3% y/y. Corrected for seasonal and calendar effects, the July output growth was 2.2% y/y (vs. 1.8% reported in June before the downside revision) and -0.2% m/m (coming after over 1% m/m rise a month earlier).

The consumer goods production performed particularly well in July, with growth rates of 12.7% y/y for durable goods and 7.0% y/y for non-durable goods, while investment goods stayed negative (-1.7% y/y) and intermediate goods jumped from -2.1% y/y to 5.0%.

The industries that performed particularly well in Jyly compared to the usual seasonal pattern for the month were, among others, textiles, wood products, furniture, tobacco products. Of the categories that pulled down the overall annual growth of output the most in recent months, car production still looked weak in July (at -9.1% y/y it even lowered its negative growth contribution from -0.5pp to -0.9pp), while production of electrical appliances showed some life (its -8.7% y/y print was enough to lift the growth contribution from -1.8pp to -1.0pp).

While it looks like a weak entry of the industrial sector into the third quarter, we highlight that the recent prints were generally deviating unusually strongly from market consensus both ways, changing the sign every month since March. This is why we do not feel that we should pay particularly high attention to the impression left by the July outcome. The c.2% seasonally adjusted annual growth may also be present, in our view, in the whole 2H24, which, given the broad sluggishness of the European industry may not be a bad outcome.

PPI inflation on the upward trend

PPI inflation climbed in July to -4.8% y/y from -5.8% y/y in June (data revised from -6.1% y/y) vs. our forecast at -5.3% y/y and market consensus at -4.9% y/y. In monthly terms prices in industry were flat and fell by 0.1% m/m in manufacturing. Some downward

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pressure on prices stemmed from stronger zloty and lower global prices of commodities. We are expecting the PPI inflation to continue to go up in the upcoming months and to approach 0% at the year-end. The recent strengthening of the zloty as well as weaker signals from the European and Polish industry can slow this process down, though. Core PPI (ex mining and coke / oil refining) increased to -4.9% y/y from -6.1% y/y.

Annual price indicator for construction declined to 5.8% y/y from 6.0% y/y in June. However, in monthly terms, prices advanced by 0.4% m/m, showing that the sector is still feeling a stable pressure on higher prices.

Employment remains stable

The growth rate of employment in the enterprise sector remained at -0.4% y/y in July, unchanged from June, in line with both the consensus and our forecast. Month-on-month, the number of full-time equivalents rose by c. 4k, i.e. by 3k more than we have expected. This minor difference vis-à-vis our forecast stemmed mainly from the trade and vehicle repair sector, which gained 4k FTEs, while we expected no changes. Increases in the level of employment were also recorded in construction (+2k FTEs), accommodation and catering (+2k), whereas decreases occurred mainly in manufacturing (-3k) and transport and storage (-3k). Reductions of employment in the latter two sectors have been observed for five consecutive months now and are likely related to continuing weakness of the euro area. Moreover, in the case of transport and storage, the ongoing declines caused the annual dynamics of employment in the sector to fall below zero for the first time since 2021.

Over the coming months, changes in the level of employment will likely be modest, as the amount of available labour force is already limited and the unemployment rate is very low. However, as the economy further rebounds, increasing demand should stimulate employment and allow its annual rate to return to positive values at the turn of the year.

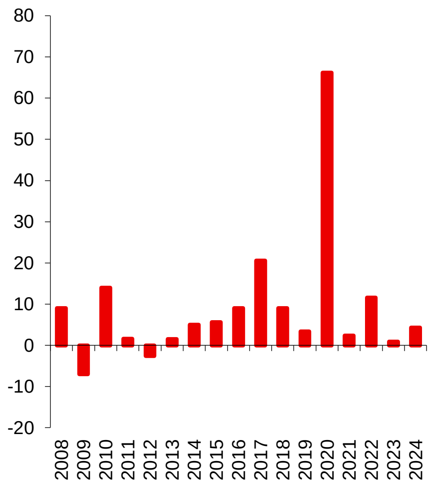
Wage growth slows down, but keeps being high

Wage dynamics fell from 11.0% in June to 10.6% y/y, a bit below the consensus of 10.8% y/y, but above our forecast of 10.2% y/y. Real wage growth dropped from 8.2% y/y to 6.1% y/y, mostly due to the sharp increase in CPI inflation. Still, the July prints are a bit better than we have thought, and the positive surprise was spread over a few sectors, including energy supply where wage dynamics jumped by over 11 pp, well above our forecast, as well water supply, construction, and transport, where the positive surprises were more modest, but also notable.

It is worth to add, that wages ex mining actually rose from 10.6% y/y to 11.9% y/y, as wage dynamics in the mining sector dived from +23.8% y/y in June to -22.5% y/y in July, likely due to changes in timing of payments of rewards and bonuses. Moreover, wages in services slid by only 0.1 pp to 10.6% y/y.

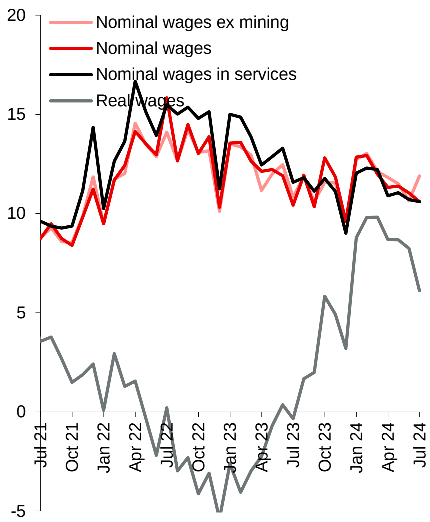
Overall, although wage growth is gradually undergoing normalisation, it is still high and should remain in or very close to double digits for the rest of the year.

Employment change in July, thousand persons



Source: GUS, Santander

Wage growth, % y/y



Source: GUS, Santander