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Economic Comment

Weak data for August

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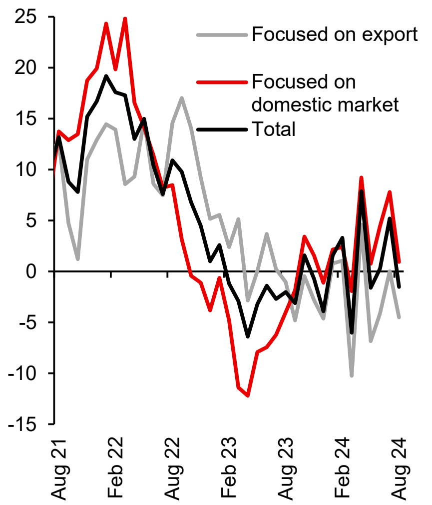
August industrial output shrank by 1.5% y/y vs market consensus at -0.5% y/y and our forecast at -0.4% y/y. It seems that the August results were mostly undermined by domestic consumer sectors, which, in our view, is not overly worrying, even though it was the second negative surprise in industrial output in a row. In general, we still expect industrial output to grow moderately in the months to come. However, a negative surprise in September can serve as food for thought.

Wage growth in the corporate sector accelerated from 10.6% in July to 11.1% y/y in August, 0.4 percentage points above the consensus but almost in line with our forecast. In effect, real wage growth increased by half a percentage point to 6.6% y/y. Employment dynamics fell from -0.4% y/y in July to -0.5% y/y in August, contrary to our and the market's expectations for an improvement to -0.3% y/y. Month-on-month, the number of full-time equivalents dropped by 19k, predominantly due to layoffs in the manufacturing sector, which shed over 10k FTEs.

August PPI inflation turned out lower than expected, -5.1% y/y vs -4.8% y/y median forecast and our -4.7% y/y call. The cause of the surprise in the headline print is the downside revision of the July reading from -4.8% y/y to -5.1% y/y. After the August print we are less sure if PPI inflation manages to climb to zero still this year in y/y terms.

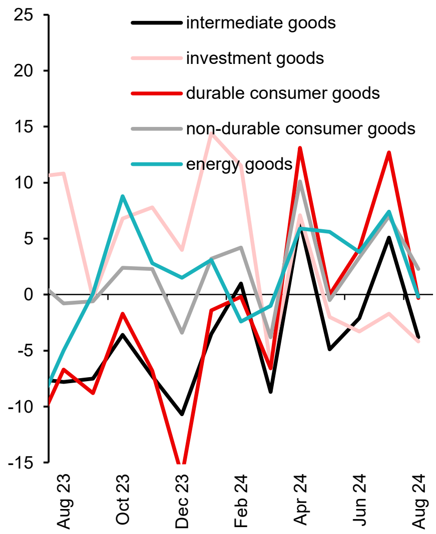
The first part of real data for August disappointed, confirming that the situation in the industrial sector remains hard and that the labour market is being affected by lagged effects of the economic slowdown. On the other hand, financial situation of households is still robust which reassures us that the outlook of consumption remains good.

Industrial production in Poland



Source: GUS, Santander

Industrial output – main product groupings, % y/y



Source: GUS, Santander

Industrial output fell more than expected

August industrial output surprised to the downside and shrank by 1.5% y/y vs market consensus at -0.5% y/y and our forecast at -0.4% y/y. Data adjusted for seasonality showed a decline by 0.8% m/m. Meanwhile, July data was corrected upwards to 5.2% y/y from 4.9% y/y.

Performance in particular sectors was quite mixed. Weak results were posted by manufacturers of clothing, wood, chemicals, metal products, furniture, machinery and electrical appliances, while strong performance was delivered in manufacture of tobacco, beverages, pharmaceuticals, cars, other transport equipment or computers. While both exporting and non-exporting sectors recorded a slowdown, it was more pronounced in case of domestic-oriented branches, as they saw their output rise by 0.9% y/y vs 7.8% y/y in July compared to -4.5% y/y in August and 0.0% y/y in July in the exporting branches.

As regards output breakdown by types of products, the slowdown was visible primarily in durable consumer goods, which fell by 0.3% y/y after rising by 12.7% y/y in July. Also intermediate goods were under pressure as their output shrank by 3.8% y/y after rising by 5.1% y/y in July.

In general, industrial output has been extraordinarily volatile over the last months, with many surprises both to the upside and downside. It seems that the August results were mostly undermined by domestic consumer sectors, which does not have to be worrying, as we remain fairly optimistic about domestic consumption outlook. Additionally, in the upcoming months this sector is likely to be supported by purchases of goods destroyed during the flood. Still, this was a second negative surprise in industrial output in a row. In general, today's numbers do not make us more pessimistic about the outlook for industrial output in Poland, which we are expecting to grow moderately in the months to come. However, a negative surprise in September can serve as food for thought.

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Wage growth remains solid

Wage growth in the corporate sector accelerated from 10.6% in July to 11.1% y/y in August, 0.4 percentage points above the consensus but almost in line with our forecast. In effect, real wage growth increased by half a percentage point to 6.6% y/y. The improvement was caused mainly by an acceleration of wage growth in services – according to our calculations, from 10.6% y/y to 11.2% y/y - and in mining - from -22.5% y/y to 4.9% y/y, which most likely reflected the statistical effect of a change in timing of payments of rewards and bonuses. Most industrial sectors registered declines in their pace of wage growth which, as a result, brought our estimate of wage growth outside of the mining sector down from 11.9% y/y to 11.3% y/y.

Overall, out of all the data published today by the stats office, only the data on wages can be viewed favourably. Wages continue to grow at a solid pace which should further support consumption and the economic revival. We expect that the rate of wage growth will remain in or very close to double digits for the rest of the year. Deceleration of wage growth will likely take place in 2025, bringing its average annual pace down to 7-8%.

Unexpected decline in employment

Employment dynamics fell from -0.4% y/y in July to -0.5% y/y in August, contrary to our and the market's expectations for an improvement to -0.3% y/y. Month-on-month, the number of full-time equivalents dropped by 19k, predominantly due to layoffs in the manufacturing sector, which shed over 10k FTEs. Although we did expect that the manufacturing had lost some FTEs in August, the reductions were over 3k greater than we estimated. Notable reductions in FTEs were also registered in trade and vehicle repair (-2.4k FTEs), and in transport and storage (-2.6k).

Generally, the labour market reacts with a lag to changing economic conditions, which may explain to some extent the negative developments. Still, they will require close monitoring.

We still think that as the economy further rebounds, and especially as investments begin to properly increase, employment should gradually improve. Employment dynamics should to return to positive values at the turn of the year.

PPI inflation stalled near -5% y/y in August

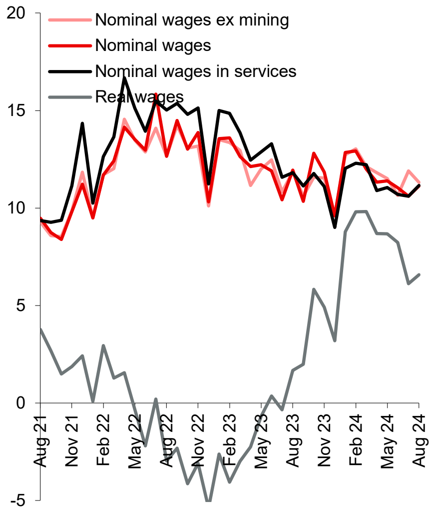
August PPI inflation turned out lower than expected, -5.1% y/y vs -4.8% y/y median forecast and our -4.7% y/y call. However, the m/m change was in line with expectations at -0.1%. Manufacturing alone also saw -0.1% m/m. The cause of the surprise in the headline print is the downside revision of the July reading from -4.8% y/y to -5.1% y/y. As part of the revision, July manufacturing PPI was moved from -3.9% y/y to -4.3% y/y and in August it dipped to -4.4% y/y. For annual PPI growth this is the first pause in its upward trend that started In February and suggests continued difficult business conditions in industry.

The largest monthly price shifts were recorded in August in oil refining and coke production (-1.2% m/m, a consequence of the large, over 7% m/m decline in the Brent oil price expressed in PLN) and tobacco products (+0.9% m/m). These two categories are also standing out when it comes to y/y price changes (-9.6% and +6.5%, respectively).

Core PPI inflation (excluding mining, coke production and oil refining) stayed at -5.1% y/y in August, according to our calculations. After the August print we are less sure if PPI inflation manages to climb to zero still this year in y/y terms.

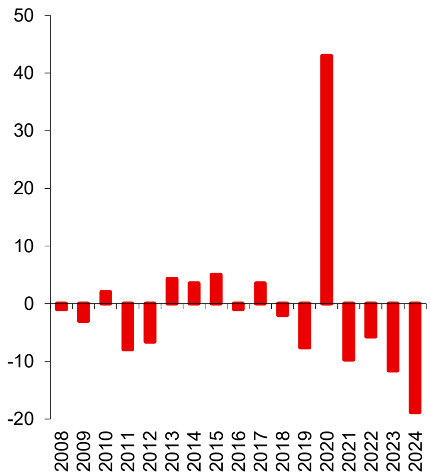
On an annual basis, the price index in the construction sector took another step down in August, in line with this year's trend, to 5.3% y/y from 5.7% y/y in July. On a monthly basis, prices moved up by 0.3%. For the 10th month in a row the growth rate remained in the 0.3-0.5% range, suggesting further stable upward pressure on prices.

Wage growth, % y/y



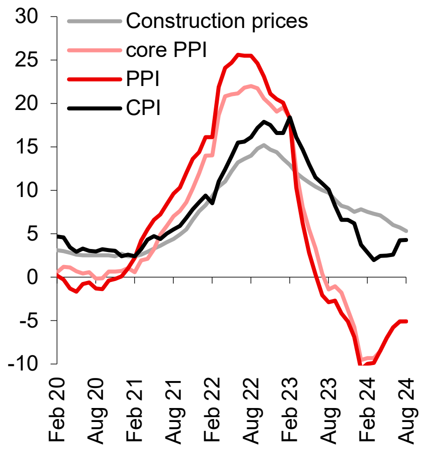
Source: GUS, Santander

Employment change in August, thousand persons



Source: GUS, Santander

Selected inflation measures in Poland, % y/y



Source: GUS, Santander

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