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Economic Comment

Stronger labour market, output still erratic

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November's data from the economy brought a positive surprise from the labour market with a slightly smaller decline in employment and higher wage growth than expected. Construction production performed quite well, although it still shows declines close to 10% y/y. Industrial production has once again confirmed that after a strong result in one month, weakness in the next is to be expected rather than a continuation of the rebound. In its new reading, the only thing that is pleasing is that not all of October's spectacular rebound m/m was offset by November's weakening. Data from the housing market suggest an increase in the number of dwellings completed next year, current market activity remains at a solid level. PPI inflation rose to -3.7% y/y, as we expected.

Industrial output did not follow suit

In November, Polish industrial output declined by 1.5% y/y, slightly more than had been expected by the market and us (-1.3% y/y). The previous surprisingly strong print was revised a notch lower, to +4.6% y/y. In seasonally adjusted terms, production volume fell by 2.8% m/m after the huge October rise by 4.6% m/m. The annual seasonally-adjusted growth rate dropped to +1.1% y/y from 3.9% y/y a month earlier, which puts it on par with its year-to-date average.

Despite the negative impact of working day difference (-2 days y/y), industries delivering consumer goods, both durables and non-durables, recorded a positive annual growth of 2.8% y/y and 1.3% y/y respectively. The output of investment goods was down 6.6% y/y, while intermediate goods fell by 1.3% y/y. Out of individual industries the largest growth was seen in apparel (+13.9% y/y) and IT equipment (+6.6% y/y), while the worst performance in terms of y/y growth was recorded in tobacco products (-17.9%), cars (-16.4%) and textiles (-10.9%).

Sectors focused on exporting markets recorded a decline in output by 4.7% y/y, while sectors focused on the internal market saw their output go up by 2.7% y/y.

The November data on industrial output failed to impress, but on the other hand not all of the spectacular m/m October rebound was offset by November weakness. The industrial sector is still neither collapsing (like its German counterpart) nor showing the type of expansion we know from previous business cycles. The outlook for the sector remains challenging, but we expect that in 2025 the mix of still decent local consumption growth, and recovery in construction sector based on EU funds will allow for low positive growth of production volumes.

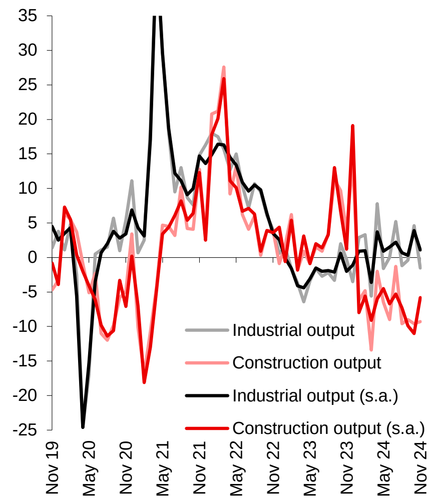
Stronger labour market data

Employment in corporate sector decreased 0.5% y/y, after rising 0.1% m/m, which was slightly above the market consensus and our forecast at -0.6% y/y and 0.0% m/m. The data broke the four-month streak of employment decline, mainly due to the trade and repairs sector, which added 2.6k jobs, and administration (+2.9k).

Negative trend of job losses in manufacturing also seemed to have lost momentum, after 8 months of strong labour shedding. In November, employment in this sector went down by 0.4k as compared to average monthly declines by 6k in August-October.

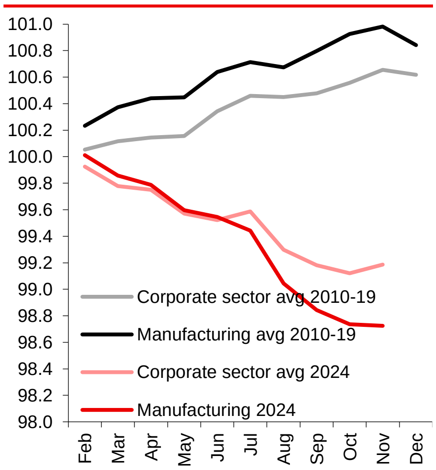
Wages also surprised to the upside, growing 10.5% y/y and 1.9% m/m. Real wages advanced by 5.6% y/y after rising by 5.0% y/y in October. The main source of positive surprise in case of wages was mining, where average pay jumped almost 50% m/m – much stronger than typically for this month, pushing the annual wage growth to +10% y/y from 11.7% y/y in October. Probably it resulted from different than usual timing of seasonal bonus payments.

Industrial and construction output, % y/y



Source: GUS, Santander

Employment, January = 100



Source: GUS, Santander

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Yet, wage growth in other sectors was also decent, exceeding our expectations. According to our estimate, average wages ex mining slowed only a little bit, from 11.0% y/y in October to 10.6% y/y in November, and remained surprisingly solid. Wages in services even accelerated, to 10.5% y/y from 10.4% y/y.

Overall, we see November labour market data as a positive sign of strength of the economy after several months of weakness in employment numbers and decelerating wage momentum.

Construction output still falling, but less than expected

Construction production recorded a 9.3% y/y decline in November, smaller than in October (-9.6% y/y), which is a positive surprise. The market assumed a result of -11% y/y and we -10.2% y/y. Adjusted for seasonal and calendar effects, construction production showed a month-on-month increase of 2.7%, the largest recorded this year, after a decline of the same magnitude a month earlier. Civil engineering, which reduced the annual output decline from 11.2% to 3.2%, significantly helped improve the annual growth of total construction production. On the other hand, the construction of buildings showed -16% y/y (previously -7.9% y/y). The end of last year in this category was exceptionally strong, which now causes a negative base effect. In view of the inflows of EU funds, the rebound of the construction industry seems to be only a matter of time, although it is difficult to determine exactly at what point in 2025 the breakthrough will occur. We expect that the average dynamics of construction production will amount to nearly 7% next year.

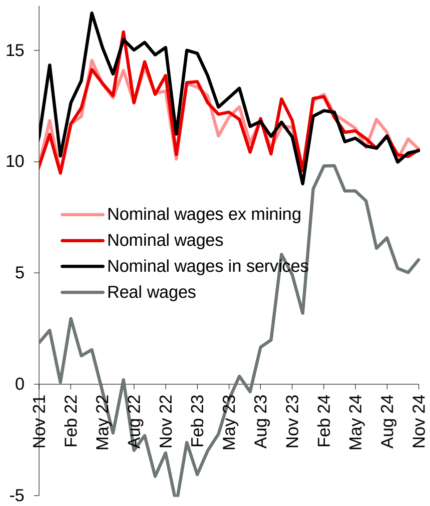
Housing market still active

In November, 16.5 thousand dwellings were completed, i.e. 10.1% less than a year earlier. We assume that this year will close with about 200 thousand dwellings completed, which will mean a decrease of c.10% compared to 2023. Still, activity on the housing market is not decreasing. The number of building permits increased by 7.5% y/y in November, and the number of construction starts by 1.9% y/y. In general, this year these two measures are markedly stronger than last year. We believe that the entire year will end with increases of more than 20% in their case, so we assume that in 2025 the number of new dwellings placed on the market will be higher than in 2024. If the new housing program, the details of which are to be announced in 1Q25 will not cause a strong increase in demand, in our opinion, next year will be a year of stabilisation or even declines in housing prices.

PPI inflation rose in line with expectations

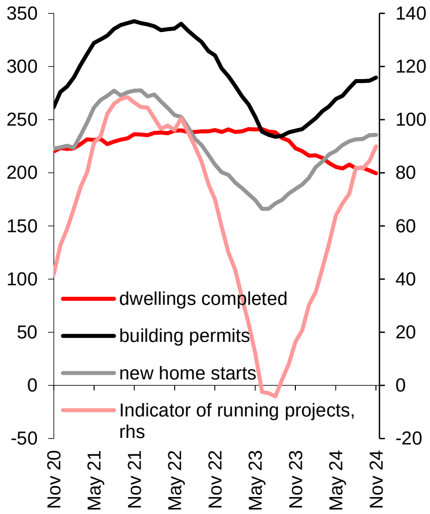
PPI inflation rose to -3.7% y/y in November from -5.1% y/y in October (data revised up by 0.1 pp), in line with our expectations and slightly higher than the market expected (-3.8% y/y). In manufacturing, prices rose by 0.3% m/m, with the strongest increase in the production of coke and refined petroleum products (1.9% m/m), which was mainly due to the weakening of the Polish zloty. We expect PPI inflation to rise further in the coming months, and it should return above zero in early 2025.

Wages in the corporate sector, % y/y



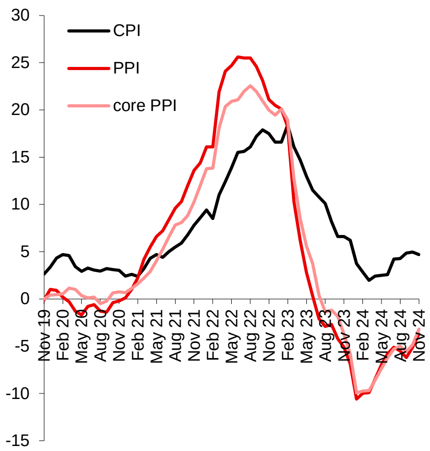
Source: GUS, Santander

Housing market statistics, 12M moving sums, in thousand units



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander