CEE Economics

Poland

22 January 2025

Economic Comment

December full of negative surprises

Piotr Bielski, tel. +48 691 393 119, piotr.bielski@santander.pl
Bartosz Białas, tel. +48 517 881 807, bartosz.bialas@santander.pl
Marcin Luziński, tel. +48 510 027 662, marcin.luzinski@santander.pl
Grzegorz Ogonek, tel. +48 609 224 857, grzegorz.ogonek@santander.pl

In December, neither industrial production, nor wages, nor even employment, lived up to market and our expectations. Production grew by just 0.2% y/y, still curbed by weakness in Europe and apparently facing rather marginal growth in 2025. Wages failed to maintain their pace above 10% y/y and employment in the corporate sector deepened the annual decline to 0.6% against a loss of nearly 10k jobs in manufacturing in December alone. PPI inflation remained negative in December, although it took another step towards zero. In the January business climate survey, GUS reported an improvement in most sectors, sentiment worsened only in retail trade. The data seem at odds with the more hawkish approach to monetary policy revealed in last week's MPC statement and the speech by its chairman.

Miss in the industrial output

Industrial output advanced by 0.2% y/y in December compared to -1.3% y/y in November and thus surprised to the downside (market: 2.3% y/y, us: 2.5% y/y). In seasonally-adjusted terms output fell by 1.1% m/m. Declines of seasonally-adjusted output in November and December have totally offset the jump and positive surprise recorded in October. In entire 2024 industrial output expanded by 1.1% and in 4Q24 by 1.3% y/y.

The result was dragged lower primarily by investment goods output, which declined by 6.7% y/y, while consumer durables advanced by 6.8% and non-durables by 5.5%. Domestically focused branches again fared better than exporting sectors, posting an increase by 4.2% y/y vs decline by 4.3% y/y in the latter. Especially weak results were recorded in manufacture of chemicals, furniture, metals or clothing.

Polish industry is still negatively affected by weak business climate in Europe, especially in Germany and we do not think this is going to change markedly in the months to come. Thus, 2025 is likely to see a marginal increase in Polish industrial output. However, note also that even though the working day effect was positive (+1 day vs December 2023), implying a stronger reading in December 2024, the calendar composition was more encouraging to go on holiday than one year earlier. We think that this could have undermined the positive working day effect.

Wage growth returned to single-digit levels

Wage growth declined from 10.5% y/y in November to 9.8% y/y in December, contrary to expectations for its slight increase, according to the consensus to 11.1% y/y and according to our forecast to 10.8% y/y. As a result, real wage growth also declined, from 5.6% y/y to 4.9% y/y.

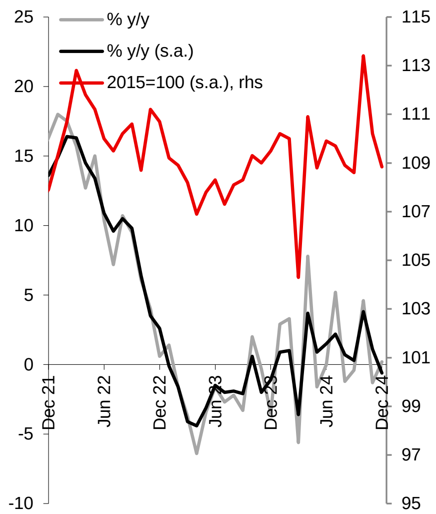
The negative deviation from our forecast was caused by lower wage growth in both the industrial and the service sector. In the former sector, wage growth fell from 10.3% y/y to 9.4% y/y, and in the latter, it fell from 10.5% y/y to 9.9% y/y. Since one of the weakest rates of wages growth was registered in mining, 3.2% y/y, we estimate that wages ex mining still managed to remain in double digits, at 10.2% y/y vs 10.6% y/y in November.

Still, we expect that already in January overall wage growth will decline further, clearly below 10% y/y.

The situation in the labour market unexpectedly deteriorated

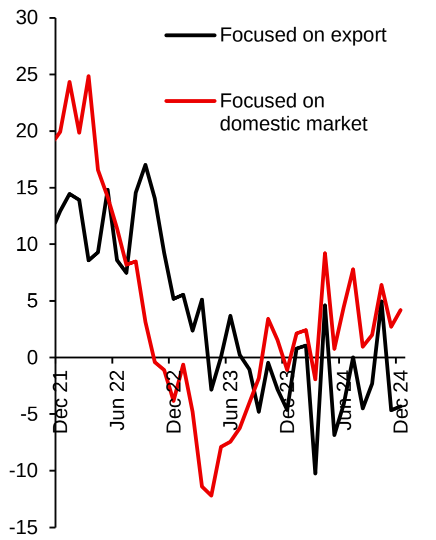
Employment growth deteriorated from -0.5% y/y in November to -0.6% y/y in December, below the consensus and our forecast for stabilisation at -0.5% y/y. Month-on-month, the number of full-time-equivalents fell by 9k, contrary to our expectations for a minor increase

Industrial output



Source: GUS, Santander

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



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas +48 517 881 807
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

of 1k. The biggest lay-offs took place in industry, which shed 11k FTEs, including 9.9k in manufacturing. Though we also expected the industrial sector to reduce employment, we estimated that the reduction would not exceed 3k FTEs.

The negative developments in in the industrial sector were slightly offset by the service sector, especially trade and vehicle repair which gained 1.7k FTEs.

Though the December data are clearly a negative surprise we still expect that in 2025, the state of the labour market will improve. In the first half of 2025, employment growth should increase to 0.0% y/y and by the end of the year, in should reach c. 0.5% y/y, stimulated by the expected economic recovery.

PPI inflation heading towards zero from below

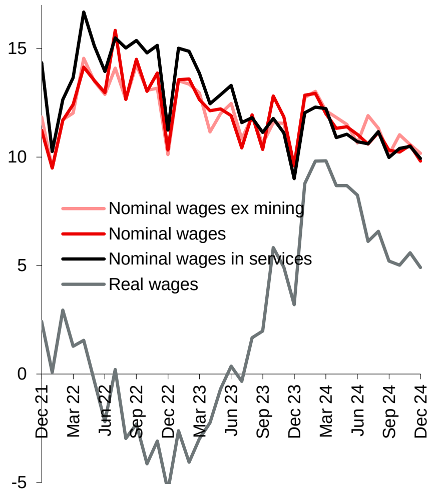
Producer prices fell by 2.6% y/y in December, vs our forecast and market consensus at -2.5% y/y. The November print was also revised a notch lower: from -3.7% to -3.8% y/y. In monthly terms, prices declined by 0.2% m/m, mainly due to 1.5% drop in mining and quarrying, -0.2% m/m in electricity and gas, and a -0.1% m/m in manufacturing. Yet, the process of a gradual pickup in PPI growth has not ended and we expect it to continue in 2025, with y/y growth turning above zero already in January and then rising towards 1.5% y/y by the year-end. One of the drivers will be rising costs of commodities and materials, amplified by zloty depreciation vs US dollar (the PLN-denominated price of Brent crude oil has increased by c.20% since September).

Most business sectors entered the new year in better mood

In January, GUS confidence indicators for Polish business sectors were either flat or higher m/m in seasonally adjusted terms, except for retail trade, which fell to the weakest level since September 2023. The strongest rise in optimism was seen among hotels and restaurants (the third significant improvement in a row, the index jumped to the highest level since November 2019) as well as financial institutions and insurers. Transport sector gauge of business confidence went up to the highest level since June last year, accompanied by somewhat better confidence among industrial companies (the indicator returned close to the 4Q24 average).

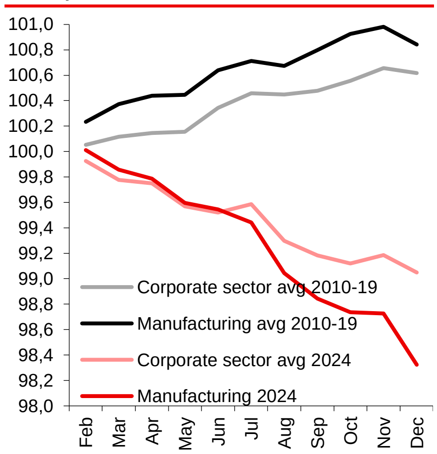
The set of leading indicators shows us that there seems to be no positive breakthrough in industry yet. The signal for private consumption is mixed, with improving demand in services but some worries arising among retail trade companies.

Wage growth in the corporate sector, % y/y



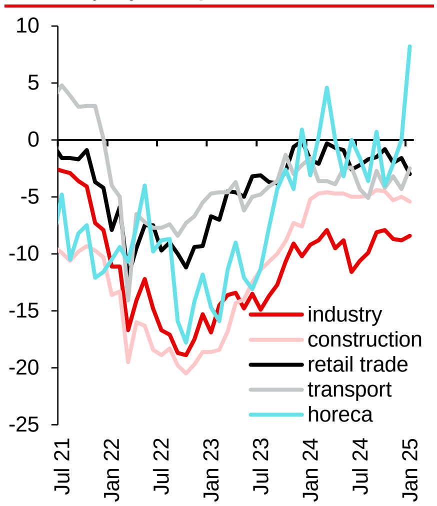
Source: GUS, Santander

Employment in the corporate sector, January = 100



Source: GUS, Santander

Sectoral business sentiment indices, seasonally adjusted, pts



Source: GUS, Santander