CEE Economics

Poland

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Economic Comment

Wage slowdown and construction rise continue

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In January, industrial production fell by 1.0% y/y, in line with our forecast and by less than the market had expected (-1.5% y/y). There was no significant pressure on industrial prices: PPI inflation rebounded to -0.9% y/y, but the market had expected a rise to -0.4%. Construction output beat market expectations by far for the second month in a row with a result of 4.3% y/y, while the median forecast was negative. Such a result suggests that the investment cycle based on EU funds has started to gain momentum. Wages and employment data in the corporate sector for January are subject to distortions due to the annual sample change, so should be interpreted with caution. They showed a further deceleration in wage growth, to 9.2% y/y from December's 9.8% y/y, and a 0.9% y/y decline in employment. Of this set, from the point of view of inflationary pressures, the most significant is the further deceleration in wages, including in services, which – if continued - should open the way for interest rate cuts over time.

Polish industrial output is still waiting for a breakthrough

In January, Polish industrial output showed -1.0% y/y growth, in line with our forecast and above market consensus at -1.5% y/y. The decline from December's +0.2% y/y was mainly due to working day differences. After seasonal and calendar effect adjustment, the data showed a recovery from -0.6% y/y in December to +0.3% y/y in January, thanks to a monthly rebound by 0.5%.

Consumer goods kept providing moderate positive contribution to overall annual output growth, while investment goods stayed below -6% y/y for the third month running. There was some improvement in intermediate goods, accelerating from 0.4% y/y to 4.0% y/y. Export-oriented industries were still performing much worse in terms of output volumes (-2.5% y/y) than suppliers of the domestic market (+3.4% y/y). There does not seem to be any clear trend in Polish industry right now. On the one side, the sector is benefitting from domestic demand rise, on the other – the foreign demand remains muted.

Further slowdown of wage growth

The pace of wage growth in the enterprise sector fell from 9.8% y/y in December to 9.2% y/y in January, 0.2 pp below our estimate but in line with the market consensus. As a result, real wage growth declined from 4.9% y/y to 3.7% y/y.

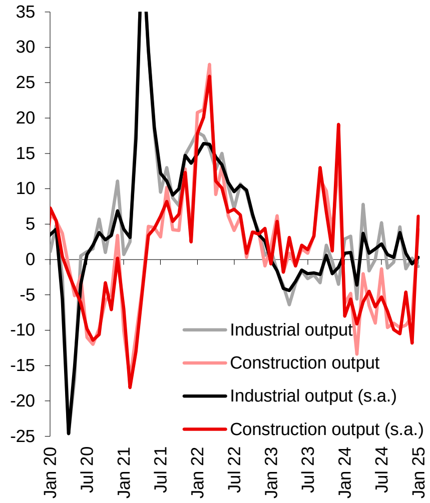
The deviation from our forecast was caused mainly by a drop in wage growth in services, from 9.4% y/y to 8.8% y/y, according to our calculations. Most other categories were relatively close to our estimates. Wage growth in mining stood at 4.0% y/y, because of which our measure of wage growth excluding the mining sector was a bit higher than the headline print and equal to 9.3% y/y, below 10.4% y/y in December.

We expect that the deceleration of wage growth will be observed also in the following months, to c.7.5% y/y on average in 2Q and less than 7% in 3Q.

Employment still lower than a year ago

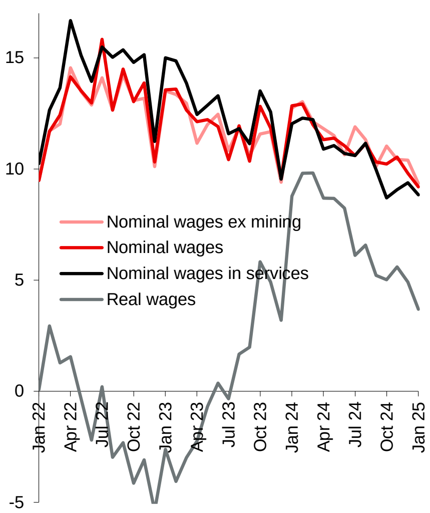
The growth of employment in the enterprise sector deteriorated from -0.6% y/y in December to -0.9% y/y in January, below both our and the market's expectations for stabilisation at -0.6% y/y. Month-on-month, the number of full-time equivalents (FTEs) rose by 1.3k, with a strong increase in the industrial sector (by 26.8k, with 25.9k only in manufacturing) and a sharp decline in retail trade, by 30.1k FTEs. However, it should be noted that the changes were distorted by the annual change of the statistical sample, which is why the results should be treated with caution.

Industrial and construction output, % y/y



Source: GUS, Santander

Wage growth in the corporate sector, % y/y



Source: GUS, Santander

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Despite the negative surprise, we expect employment growth to gradually recover over the coming months, alongside the expected further rebound of the economy and, especially, investment.

Construction output beat expectations again

January construction and assembly production, like that for December, turned out to be the most positive piece of the monthly economic data set published so far. Its 4.3% y/y increase clearly beat expectations (market -0.3% y/y, we -2.7% y/y). After seasonal adjustment and the elimination of calendar effects, the data showed an increase of 6.1% y/y against -11.8% y/y in December. After two months of a strong m/m rebound (+4.1% in November, +5.8% in December), the level of seasonally-adjusted construction output remained unchanged in January, but this does not change how positive we perceive the construction data.

All three main components of construction output showed positive y/y growth: construction of buildings by 7.1% (the first time above zero since December 2023), civil engineering works by 1.6% and specialised works by 3.9% (in the latter two, the last positive reading was in July last year).

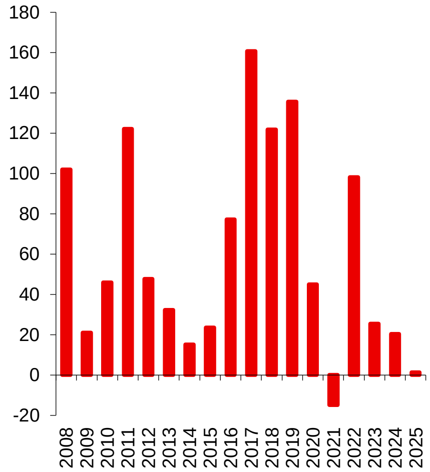
The scale of the improvement in construction output may have been favourably influenced by the mild weather, but in our view, in light of the previous strong reading, the improvement can be linked to the acceleration of the investment cycle based on EU funds.

PPI inflation heading towards zero from below

PPI inflation was -0.9 y/y in January, versus -2.7% y/y in December (revised up by -0.1pp), falling below market expectations and our forecast at -0.4% y/y. Producer prices fell 0.1 m/m, mainly in mining and quarrying (-1.4%) and energy sector (-1% m/m), with no change m/m in manufacturing. So, the pickup in annual PPI change was mainly the result of the very low base (in January 2024 producer prices declined by almost 2% m/m). Overall, the data did not show any meaningful cost pressure in Polish industry at the start of the year. We expect PPI growth to increase gradually in 2025, getting above zero in the second year-half. Yet, the pace should be slower than we earlier anticipated, especially given the strength of the PLN.

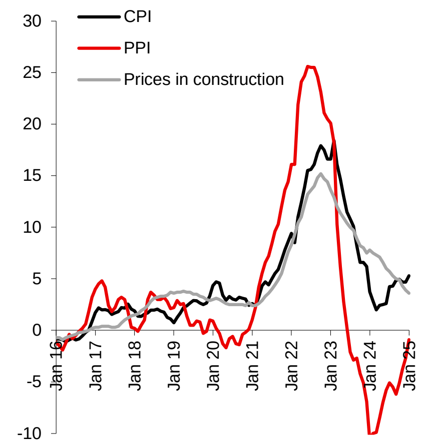
Construction prices continued to decelerate in January. Their annual growth rate slipped to 3.6% from 3.9% in December and 7.8% in January last year. From January to October 2024, monthly price increases were to the tune of 0.3-0.5% each, but since November, these have been negligible (zero in November and January, 0.1% in December).

Changes in employment in January, thousands m/m



Source: GUS, Santander

Price growth in the Polish economy, %y/y



Source: GUS, Santander

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