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Economic Comment

February freeze in activity

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February data on industrial and construction production and corporate sector wages came in below expectations. Industry showed a 2% y/y decline, construction slowed to zero y/y and the downward trend in wage growth brought it to 7.9% y/y. Employment growth remained at -0.9% y/y. PPI inflation, as expected, slipped deeper below zero. With the domestic economy in good shape, the prospect of increased defence spending in the EU and the implementation of RRP projects, the performance of domestic industry and construction should start to improve over the course of the year and wage pressures may intensify, slowing the deceleration in wage growth.

Industrial production below forecasts

Industrial output shrank by 2.0% y/y in February, compared with -0.9% y/y in January, market consensus at -1.1% y/y and our call at -0.5% y/y, thus delivering a major disappointment. On a seasonally adjusted basis, production fell by 0.2% m/m.

Performance across industry sectors was strongly mixed: we can see very weak results in clothing, non-metallic mineral products, metal products, electrical equipment, and machinery and equipment, compared to pretty strong numbers in tobacco, paper, and computers. In terms of industrial groupings, annual growth rate improved in capital goods and energy-related goods, and worsened in purchasing and consumer goods, both durable and non-durable. Also exporting sectors saw a higher annual growth rate, so the industry as a whole was dragged lower by the weaker performance of sectors focused on the domestic market.

Industry is likely to continue to struggle in the months to come, given weak economic climate in Germany and Europe. Still, recent plans to loosen fiscal policy in Germany and to boost defence spending across EU given hope for better results further in the future. In addition, quite good economic results in Poland, sound situation of consumers and acceleration of EU-funded investment should provide support for sectors focused on the domestic market.

No positive surprise in construction output this time

In February, Polish construction output disappointed by slowing down to zero y/y growth, from 4.3% in January. The market expected to see +2.3% y/y while our estimate was +1.0% y/y. The February miss was smaller in size than any of the two large positive surprises coming before it, so we can still say that the construction sector seems to perform better than had been expected in late 2024. The seasonally adjusted growth was -2.3% m/m, and in y/y terms it shrank to 0.8% from 6.1% previously – which still beats the 2024 prints, which were all negative y/y.

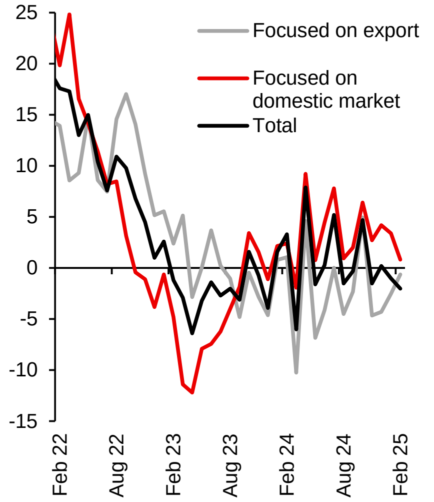
The February slowdown in construction output was caused by a 4pp lower contribution to headline growth from buildings (output in this category down 3.8% y/y after +7.1% previously) while civil engineering and specialised works grew at a similar pace as in January (1.7% and 3.0%, respectively). Weather may have played a role in both the strong January (unusually warm) and the February weakness (a cold wave in the middle of the month).

The European rearmament effort will include infrastructure outlays which should improve the performance of the Polis construction sector later in 2025.

Housing construction

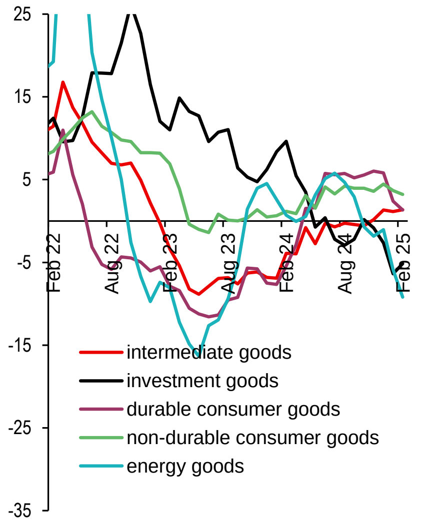
Frost in mid-February apparently affected residential construction activity. There were 7.7% less dwellings completed than a year ago (January: +3.8% y/y) and building permits were down 6.3% y/y (January: -4.9% y/y). Housing starts also fell: by 3.4% against January and by

Industrial output, % y/y



Source: GUS, Santander

Industrial output by main groupings, % y/y, 3m moving average



Source: GUS, Santander

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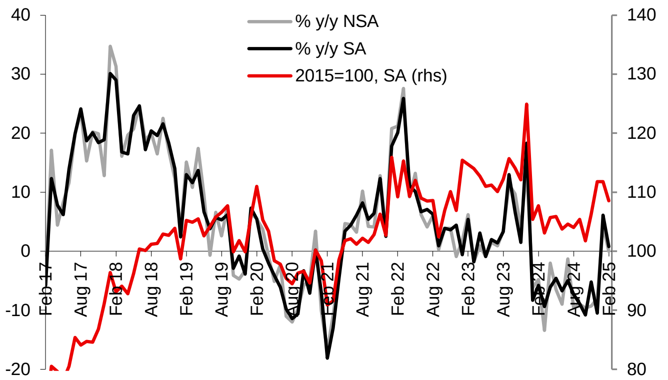
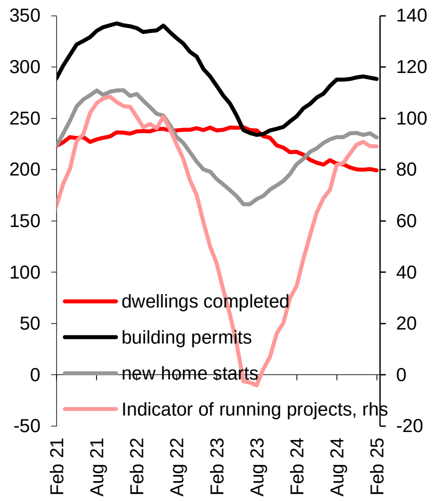
19.3% y/y. Our housing projects-in-progress indicator was almost unchanged compared to January and was significantly higher than at the beginning of last year. Reduced house price growth and continued solid growth of household incomes should support turnover in the housing market. The presentation of the new housing support programme may unlock some of the demand held back before the terms the government offers were known.

Polish construction and maintenance production



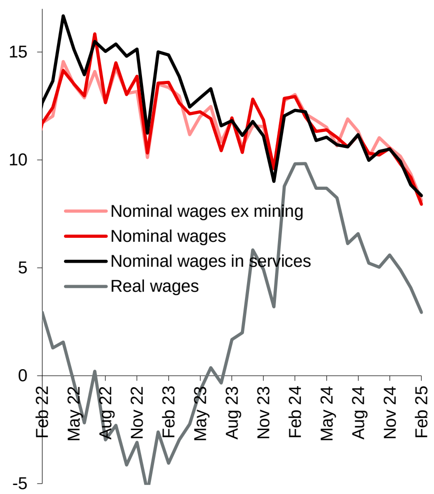
Source: GUS, Santander

Polish housing market tendencies, 12M moving sum, in thousand units



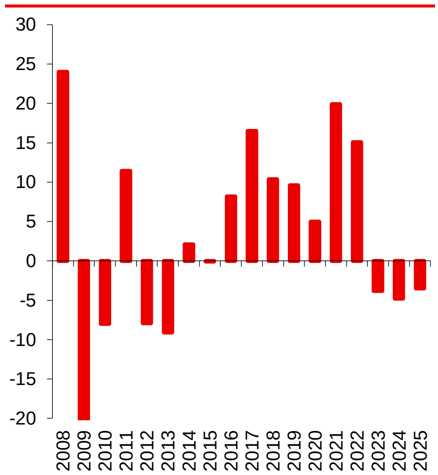
Source: GUS, Santander

Wage growth in the enterprise sector, % y/y



Source: GUS, Santander

Change in employment in February, thousands



Source: GUS, Santander

Housing construction

Frost in mid-February apparently affected residential construction activity. There were 7.7% less dwellings completed than a year ago (January: +3.8% y/y) and building permits were down 6.3% y/y (January: -4.9% y/y). Housing starts also fell: by 3.4% against January and by 19.3% y/y. Our housing projects-in-progress indicator was almost unchanged compared to January and was significantly higher than at the beginning of last year. Reduced house price growth and continued solid growth of household incomes should support turnover in the housing market. The presentation of the new housing support programme may unlock some of the demand held back before the terms the government offers were known.

Further slowdown in wage growth

Wage growth in the enterprise sector decelerated from 9.2% y/y in January to 7.9% y/y in February, 0.7 pp below our forecast and 0.8 pp below the market consensus. The deceleration brought the real wage growth down from 4.1% y/y (revised from the previously-implied 3.7% y/y due to the -0.4 pp revision of the January inflation print) to 2.9% y/y.

The deviation from our forecast had its main source in the industrial sector, where, according to our calculations, average wage growth declined from 9.5% y/y to 7.5% y/y, 1.6 pp below our estimate. Exceptions to the declines in industry were the sectors of mining and energy supply, where the pace of wage growth remained unchanged at, respectively, 4.0% y/y and 11.0% y/y. According to our estimates, wage growth ex mining dropped from 9.3% y/y to 8.1% y/y and wage growth in services went down from 8.8% y/y to 8.3% y/y.

We expect that the deceleration of wage growth will continue over the year, and that the average rate of wage growth in 2025 may stand at a bit over 7% y/y. Though wage growth in February was lower than expected, in the following months it should still remain high enough to offer support to private consumption.

Employment with few notable changes

The annual change in employment in the enterprise sector remained at -0.9% y/y in February, unchanged from January, with the number of full-time equivalents (FTEs) falling c. 3.5k m/m, close to our expectations.

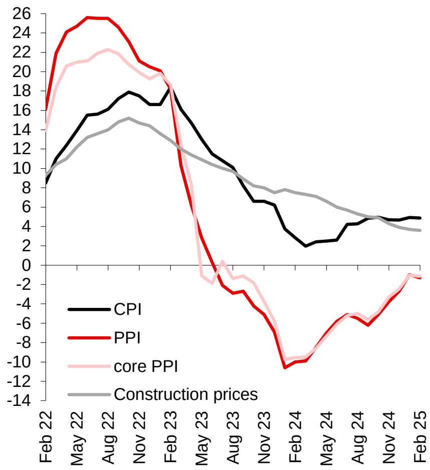
Changes in most sectors were not far from our estimates and in most cases did not exceed 1k FTEs. The only notable exception were administrative services, which shed 3.3k FTEs.

We expect employment growth to gradually improve over the year, and to near 0% y/y at the year-end. This process should be supported by the ongoing economic rebound and, especially, by expected by us increase in investment.

PPI inflation down slightly, in line with forecasts

PPI inflation eased in February to -1.3% y/y from -1.0% y/y in January (revised data), roughly in line with forecasts (-1.2% y/y). The decline was mainly due to lower prices in manufacturing (-0.2% m/m), which we believe was the result of a stronger zloty, although the fall in prices of some commodities, such as oil, also helped. We think that in the following months industrial prices may start to rebound slightly and it is possible that by the end of the year PPI will approach zero.

PPI inflation, % y/y



Source: GUS, Santander

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