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Economic Comment

March data support an interest rate cut

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Data for March have disappointed. Industrial production growth moved into positive territory (2.5% y/y), but less than expected and its rebound was based on calendar effects. Construction output, contrary to expectations, did not grow on an annual basis (-1.1% y/y). We expected wage growth to return above 8% y/y, meanwhile, there was a further deceleration to 7.7% y/y. Employment continued to fall by 0.9% y/y, PPI inflation turned slightly less negative and the April business sentiment survey showed deterioration in retail trade and manufacturing. This set of data should keep the MPC on the course to an interest rate cut at the May meeting, according to us by 50bp.

Industrial production below forecasts again

In March, Polish industrial production recorded a rise by 2.5% y/y against market expectations at 3.6% y/y and our forecast of 2.9% y/y. This comes after a disappointing February print, similar in scale when it comes to the deviation from market expectations (February was initially reported at -2.0% y/y vs. -1.1% median of market forecasts). Seasonal adjustment of the industrial data showed output falling 0.7% m/m after a 0.2% m/m drop in February. In terms of headline output growth, March looks much stronger than February, but this is largely caused by statistical effects – no y/y difference in working days compared to one day less y/y in February, the positive base effect related to the fact that Easter fell in March in 2024. All this should motivate the MPC to deliver a rate cut in May. There are also some positive elements in the release: February headline result was revised higher by 0.1pp to -1.9% y/y, with manufacturing pushed up by 0.2pp. Manufacturing was also stronger than we had thought in March, hitting 3.0% y/y, even though the reading for total industry was below our forecast.

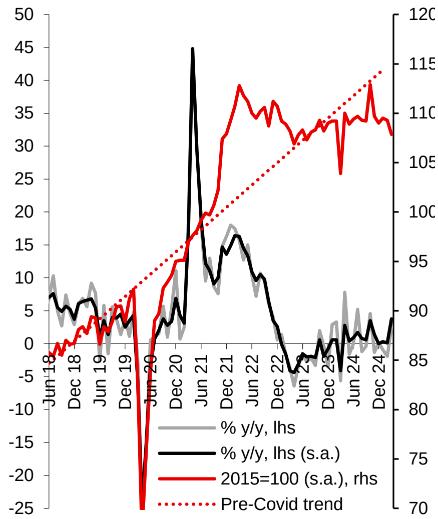
As regards data on activity by industry, the manufacture of clothing and wood products went up more than usual in March in m/m terms. The utility sector and coal mining recorded the second poor (ie significantly worse than median m/m growth) result in a row. A very weak result was seen in the production of other transport equipment. In terms of main industrial groupings, the production of capital goods grew by 10.4% y/y, intermediate goods showed +4.3% y/y and consumer goods were up 2.5% y/y (durable) and 2.6% y/y (non-durable). However, the rebound from negative growth rates recorded in February is based on statistical calendar effects and we do not believe that this pace will be maintained in the months to come. The same can be said about results breakdown by the market: export-oriented sectors showed an increase of 6.6% y/y and sectors focused on domestic demand showed an increase in production of 2.1% y/y.

The business sentiment indicators covering industry look promising of late: in March the PMI remained above 50 pts and GUS indicator simultaneously improved to the strongest level in almost 3.5 years. What bodes ill for the sector is the possible negative consequences of trade wars and this is the factor that may have stood behind the deterioration in business sentiment in April, we describe below).

Construction output unexpectedly fell y/y

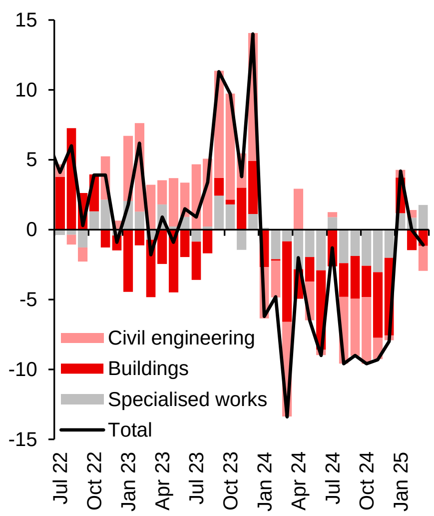
Construction output in March fell by 1.1% y/y, way below our forecast and market consensus (at +5.7% and +5.6% y/y, respectively). Seasonally adjusted growth was 0.4% higher than in the corresponding month of the previous year and lower by 3.7% in comparison to February. The biggest drop took place in civil engineering (-4.9% y/y), which followed a few months of decent performance in this area, which we had attributed to the ongoing investment recovery, fuelled by rising utilization of the EU's RRP money. Construction of buildings fell 3.4% y/y and specialized construction activities soared 6% y/y.

Industrial output



Source: GUS, Santander

Construction output, %y/y, with growth structure



Source: GUS, Santander

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March was quite warm, so it is hard to attribute the disappointment to severe weather conditions.

We still believe that the next months should see a return to positive rate of growth in construction, as infrastructure investments should gain speed on municipal and governmental level. The focus on improving defence in Poland and Europe, including increased spending on related infrastructure, should also support performance in the Polish construction sector later in 2025. Yet, the March result was a clear disappointment, which will probably join the list of arguments in favour of a large interest rate cut in May.

Wage growth again below expectations

Wage growth in the corporate sector extended its streak of declines in March, falling from 7.9% y/y to 7.7% y/y, below the market consensus of 7.8% y/y and our estimate of 8.4% y/y. As a result, real wage growth fell from 2.9% y/y to 2.7% y/y.

According to our calculations, the decline in nominal wage growth stemmed mainly from deceleration of wage growth in services from 8.3% y/y to 8.1% y/y, with a particularly notable decline in the sector of retail trade and vehicle repair, from 7.8% y/y to 5.2% y/y. Wage growth in the industrial sector declined as well, per our estimates, from 7.5% y/y to 7.4% y/y, though wage growth in both the mining and the manufacturing sector accelerated by 0.8-0.9 pp. In effect, according to our estimates, wage growth outside of the mining sector fell from 8.1% y/y to 7.8% y/y.

Overall, the data constitute another downwards surprise which suggest that wage pressure is vanishing more quickly than was expected. This significantly increases the chance for a 50bp cut at the May MPC meeting.

Employment growth remains steady

Employment growth in the corporate sector remained unchanged in March at -0.9% y/y, in line with the market consensus and our estimate. Month-on-month, the number of full-time equivalents (FTEs) fell by 0.1% (7.5k), also as expected.

The decline in FTEs was split almost equally between the industrial sector and the service sector, with the former shedding 3.6k FTEs (including 2.1k in manufacturing) and the latter loosing 3.9k FTEs (including 3.3k in transport and storage).

The data on employment offer no breakthroughs. We expect that in the second half of the year we should observe some gradual improvement in employment growth which should bring its rate near 0% y/y by the end of the year.

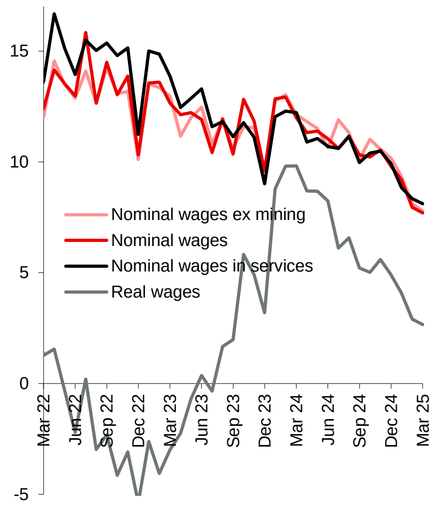
Less optimism among Polish companies

In April, the change in assessments of the business climate in the Polish economy was mixed, with a slight bias towards deterioration in optimism. A minute improvement was recorded in catering and accommodation, information and communication and transport. Optimism indicators worsened in the remaining sectors, with the strongest falls in retail trade (down to -3.9pts from -1.5pts) and manufacturing (-8.7pts from -7.7pts), which, in our opinion, may be a result of uncertainty linked to rapid changes in the US trade policy. We think that due to the above factor, the room for improvement in optimism among Polish companies may be limited in the coming months.

PPI inflation slowly goes up

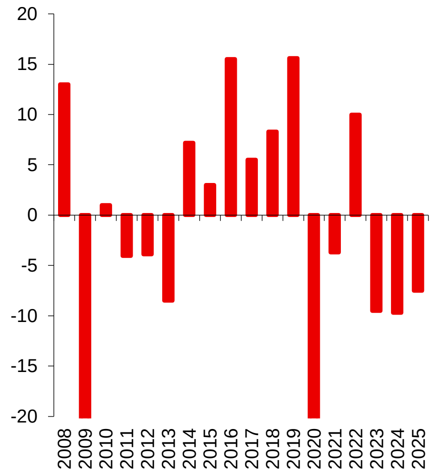
PPI inflation rose to -1.1% y/y in March from -1.3% y/y in February, which was in line with consensus but slightly less than we had expected (-0.9% y/y). On a m/m basis, prices in industry fell by 0.3% m/m, including a 0.2% m/m decline in manufacturing. This was largely the result of the strengthening of the zloty and the fall in oil prices, which triggered a 3.0% m/m decline in manufacture of coke and refined petroleum products. We estimate that the core PPI (excluding mining and coke and refined petroleum products), declined by 0.1% m/m. We expect the PPI to slowly climb further and could exceed zero by the end of the year.

Wage growth in the enterprise sector, % y/y



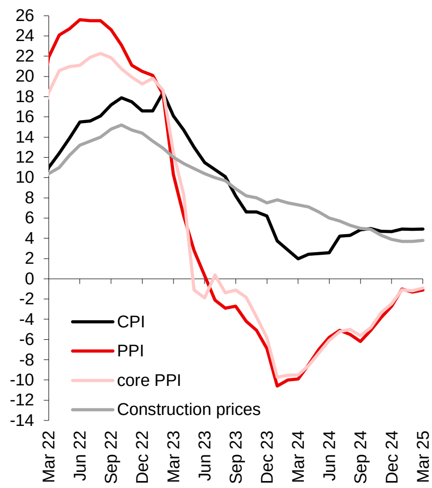
Source: GUS, Santander

Change in employment in March, thousands



Source: GUS, Santander

PPI inflation, % y/y



Source: GUS, Santander

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