

Polish data signals a softer fourth quarter but a brighter outlook for 2025

On the production side, industry remains weak due to soft external demand and construction remained in recession in November. On the consumer side, wages remain robust and unemployment is at an all-time low - but employment is shrinking. The more positive growth outlook for 2025 will largely depend on sustained real income growth and an acceleration in public investments



Warsaw, Poland

Industry still weak amid headwinds from external demand

Polish industrial production fell by 1.5% year-on-year in November, below consensus and our expectations (ING: 0.1%, consensus: 0.0%), following a 4.6% YoY increase in October (revised down from 4.7%). Seasonally adjusted industrial output in November was 2.8% lower than in October, indicating that the October rebound was not sustained.

While the October data provided some ground for optimism, external demand remains weak, and the local November manufacturing PMI deteriorated vs October. Industry is still struggling with low external demand from European countries. At the same time, the public investment impulse is slowly gaining momentum as shown by the construction sector and growth in some industrial

divisions.

Industrial data may suggest that the investment impulse related to EU funds is slowly gaining momentum. We estimate that this year, beneficiaries will receive a total of PLN40bn from the RRF and structural funds, and in 2025, this could be as much as PLN95bn. This should support a rebound in public investments, as private investments are likely to recover only gradually. We do not expect significant support from external demand, especially from Germany. Rising competition from China and the prospects of US tariffs are bad news for German industry and a major challenge for the new government after the early elections in Germany scheduled for February 2025.

Construction still in recession, but some revival in infrastructure investment

Construction and assembly production fell by 9.3% YoY in November, slightly better than the consensus of -10.5%, following a 9.6% YoY decline the previous month. The shallower-than-expected decline was due to some improvement in infrastructure segment. The construction of civil engineering structures fell by -3.2% YoY only in November compared to -10.2% in the previous month. At the same time, declines in other areas deepened significantly. Building construction fell by 16.0% YoY after 7.9% decline in October. Specialised works were 13.0% down YoY after 10.4% drop in the previous month.

In the environment of low investment activity, the construction industry is in recession. Unfavourable calendar (lower number of working days) and weather conditions were weighing on construction activity. The short-term stimulus in the sector housing construction triggered by the mortgage subsidies programme in the second half of 2023 created a high base and left a legacy of significantly increased housing prices and reduced dwellings availability. Price adjustments take time, and – in the context of high National Bank of Poland interest rates and unclear government support – will proceed gradually, also during next year.

Prospects for infrastructure investments look bright on the back of the accelerated absorption of EU funds, which supports our projection of 9.5% investment growth in 2025 from about 2% this year.

Labour market still tight despite growth soft patch

The average wage in the enterprise sector increased by 10.5%YoY in November (consensus: 10.0%), following a 10.2% YoY increase in October. The annual wage growth rate in enterprises remained at double-digit levels despite a high base effect (due to bonuses in the energy sector in November 2023) and fewer working days than a year ago. This year's result was supported by bonuses in the mining sector. We expect wage growth in 2025 to be slower than in the current year and to remain at single-digit levels.

From January, the minimum wage will increase by 8.5%, whereas at the beginning of 2024, this increase was 17.8%. Wages in the public sector will also grow more slowly. The 2025 draft budget bill assumes a 5% wage increase in administration, compared to 20% in 2024, and 30% for teachers this year. We forecast an average wage increase in the enterprise sector of 7.5% in 2025, compared to 11.4% in 2024.

Average employment in the enterprise sector declined by 0.5% YoY last month (consensus: -0.6%),

following a 0.6% YoY drop in October. Compared to October, the number of jobs increased by 5,000. November is usually a month of seasonal employment growth, but this year the increase in the number of jobs was relatively low compared to previous years. Generally, throughout 2024, we have been experiencing a declining level of employment. Compared to the end of January (excluding this month due to the annual sample update), employment decreased by 56,000 jobs.

In some industries, there are ongoing group layoffs, but the decline in labour demand is largely offset by a decrease in its supply due to the shrinking domestic working-age population and less favourable net migration flows. As a result, the scale of the employment decline is limited, and the labour market remains tight. The registered unemployment rate is at its lowest level in history (likely 4.9% in November).

The overall picture of the labour market is moderately favourable. We expect wage growth to slow down in 2025, which is a pre-condition for reducing pressure on services prices increases and, consequently, core inflation. We forecast that by the end of 2025, CPI inflation should fall below the upper limit of deviations from the NBP's target. In such conditions, the NBP will have room to ease monetary policy, although in light of recent signals from the MPC, the timing of the start of the rate-cutting cycle in 2025 is highly uncertain.

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