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Economic Comment

Moderate pace of slowdown, inflation below 18%

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Flash GDP data showed growth down to 3.5% y/y in 3Q22 from 5.8% y/y, in line with our forecasts and slightly above the market consensus (3.4% y/y). We think that next year average GDP growth could be close to 0%. October CPI inflation was confirmed at 17.9% y/y, rising from 17.2% mostly on further rise in food and core categories. Core inflation most likely reached 11.1% y/y. We expect CPI to pause for a month at 17.9% y/y and to end the year slightly above 18% y/y.

GDP growth down to 3.5% y/y

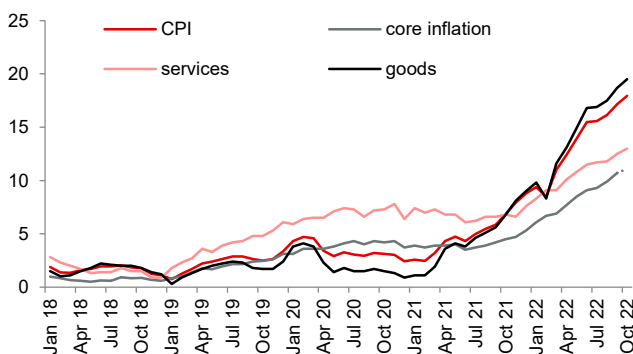
Flash GDP growth in 3Q22 showed 3.5% y/y, in line with our forecasts and slightly above the market consensus (3.4% y/y). Seasonally-adjusted numbers printed 0.9% q/q, after -2.3% q/q in 2Q22. Detailed breakdown data are due for release at 30 November and we assume that the slowdown from 5.8% y/y recorded in 2Q22 was mostly driven by weaker private consumption, investment and stock building.

We are expecting the GDP growth to be slowing down further in the following quarters, averaging c4.5% in 2022 and close to 0% in 2023. This development will be mostly driven by high inflation, undermining households' purchasing power and by negative investment sentiment, dragged lower by higher interest rates and delays in EU funds disbursement.

Inflation confirmed at 17.9%

October CPI inflation was confirmed at 17.9% y/y and 1.8% m/m (vs. 17.2% y/y in September). Higher reading was mostly due to rising prices of food (+2.7% m/m – the most on record for this month) and in core CPI (the latter likely rose to 11.1% y/y from 10.7% in September, setting another all-time high). Goods prices rose by 2.1% m/m (annual growth up to 19.5% y/y from 18.7%) while services prices went up by 0.7% m/m (13.0% y/y, up from 12.5%).

CPI in Poland and main components, %y/y

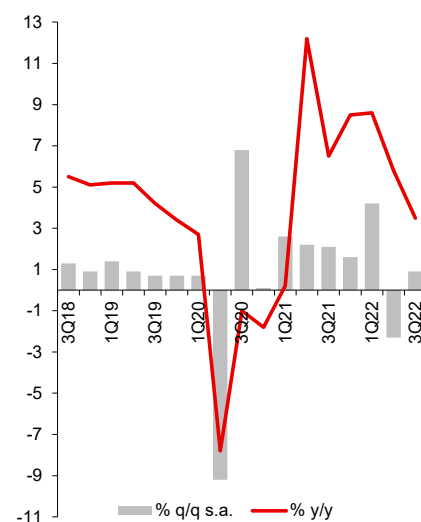


Source: GUS, Santander

All groups of food products showed price growth much above the seasonal patterns, especially dairy products (+4.4% m/m), oils and fats (+2.8% m/m). Fruit and vegetable prices rose even more m/m (3.1% and 8.1% respectively) than in the same period of drought years. So far we have not seen any downside correction in sugar prices after households' panic buying in August that led to retail price growth of over 40% m/m.

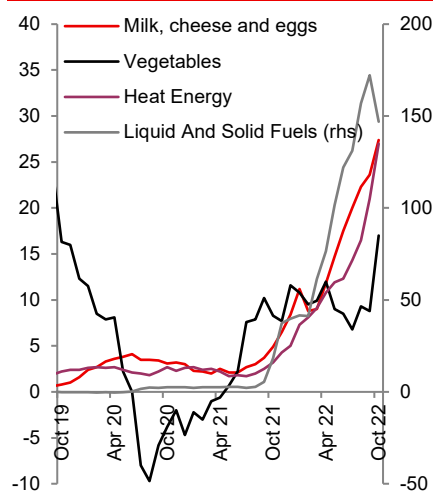
Unusually high rise was seen again in education (2.0% m/m) but prices were flat in telecommunication services. As for durable goods: household appliances and cars got more expensive while prices of furniture, IT and audio-visual equipment did not rise more than usual in October. There was also relatively high price growth seen in cleaning products, health and personal care goods and services. Some relative stability in solid fuel prices (+2.2% m/m after 6 months of readings in the 5-14% m/m range) was accompanied by a record high rise in heating energy (+6.6% m/m).

Retail sales, % y/y



Source: GUS, Santander

Selected Polish CPI categories, % y/y



Source: GUS, Santander

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We expect CPI to pause for a month at 17.9% y/y and to end the year slightly above 18% y/y. The peak of inflation should come in February but its level will depend to a large extent on the choices government makes regarding its anti-inflation tools (changes to VAT rates and excise, introduction of cap prices on gas and electricity) and how the stats office incorporates them into the data. We generally expect a slide of inflation in 2023, to below 10% in the final months. The MPC has communicated a pause in rate hikes and we do not think that this or the next CPI readings could make them change this approach. Some discussion on further rate hikes could be held when the NBP projection is refreshed in March.

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