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Economic Comment

Weak consumption in 3Q, unexpected drop of CPI

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Polish GDP growth in 3Q22 reached 3.6% y/y (revised up from the flash reading of 3.5%), slowing from 5.8% y/y in 2Q. The breakdown of growth looks worse than we had expected: both private consumption and investments decelerated sharply. We think that the Polish economy will keep slowing in the coming quarters, amid deteriorating sentiment, high interest rate environment, potential energy shortages. We expect 4Q22 and 1Q23 to show negative q/q growth. In 1Q23 a clearly negative y/y print is also possible. A gradual economic recovery should be felt in 2H23, but 2023 full-year GDP growth may be close to zero.

CPI inflation eased to 17.4% y/y in November from 17.9% y/y in October, as compared to our and market forecasts of a slight increase to 18.0% y/y. The annual CPI declined for the first time since February. We believe that inflation will remain close to November levels in December, with a possible rebound in early 2023 linked to the withdrawal of the 'Anti-Inflation Shield'. We do not yet know all the details of the 'Shield' cancellation and of the possible new measures, but in our view inflation could break 20% in February before embarking on a downward trend and sliding to around 10% at the end of 2023.

The data support the MPC's stance to stabilise rates now.

GDP growth lost support of consumption and investments

Polish GDP growth in 3Q22 reached 3.6% y/y (revised up from the flash reading of 3.5%), slowing from 5.8% y/y in 2Q. The seasonally adjusted GDP rose by 1.0% q/q (also up 0.1pp vs. the flash print) after collapsing 2.3% q/q in 2Q.

The breakdown of growth looks worse than we had expected: both private consumption and investments decelerated sharply. Their combined contribution to economic growth dropped to 0.8pp in 3Q from 4.6pp in both 2Q and 1Q. Private consumption growth collapsed to 0.9% y/y from 6.4% y/y (we expected to see 4.5%, November NBP projection assumed 2.1%). In SA q/q terms this means a 0,7% decline. Fixed investments slowed down to 2.0% y/y from 6.6% (our call was 5%, NBP projection had 4.1%) which means a drop by 0.6% q/q SA. Instead of a large reduction in inventories we had expected (stealing some 3pp from GDP growth), the category increased its growth contribution to 2.2pp from 1.8pp. We had the 3Q GDP growth would also rely more on net exports, but the contribution was just 0.6pp.

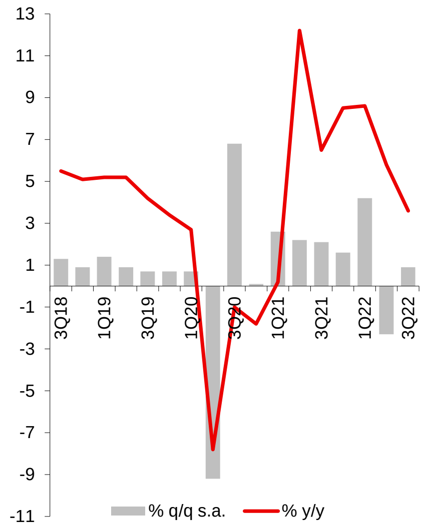
GDP growth and its components (% y/y)

	2020	2021	3Q21	4Q21	1Q22	2Q22	3Q22
GDP	-2.0	6.8	6.5	8.5	8.6	5.8	3.6
Domestic demand	-2.7	8.4	9.5	11.8	12.0	6.9	3.1
Total consumption	-1.5	5.9	4.8	7.7	5.1	4.8	0.7
Private consumption	-3.6	6.3	4.9	8.5	6.7	6.4	0.9
Public consumption	4.9	5.0	4.4	5.6	0.3	0.6	0.1
Gross accumulation	-7.5	18.1	30.6	23.7	45.1	15.1	11.4
Fixed investment	-2.3	2.1	4.1	3.8	4.7	6.6	2.0
Stock building *	-1.1	3.0	4.5	4.8	6.6	1.8	2.2
Net export *	0.6	-1.0	-2.3	-2.7	-2.5	-0.6	0.6

* contribution to GDP growth (percentage points)
Source: GUS, Santander

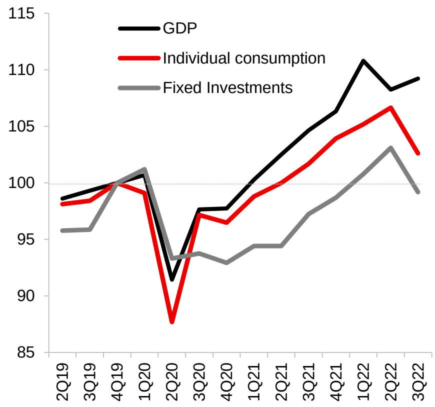
Value added increased by 3.3% y/y, compared to 5.6% in 2Q. Industry remained the main sector supporting the economic growth (contributing 1.2pp to GDP), but slowed to 6.1% y/y from 8.4% y/y. Value added in construction increased by 1.0% y/y (5.2% y/y in 2Q), in trade by 0.1% y/y (5.6% y/y in 2Q) and in transport by 9.7% y/y (13.5% y/y in 2Q). These results were roughly in line with our assumptions. Value added in restaurants and hotels increased by 4.0% y/y after 3.1% y/y in 2Q, while seasonally-adjusted data showed a rise 243.4% q/q

Polish GDP growth



Source: GUS, Santander

Level of GDP and main components, seasonally adjusted



Source: GUS, Santander

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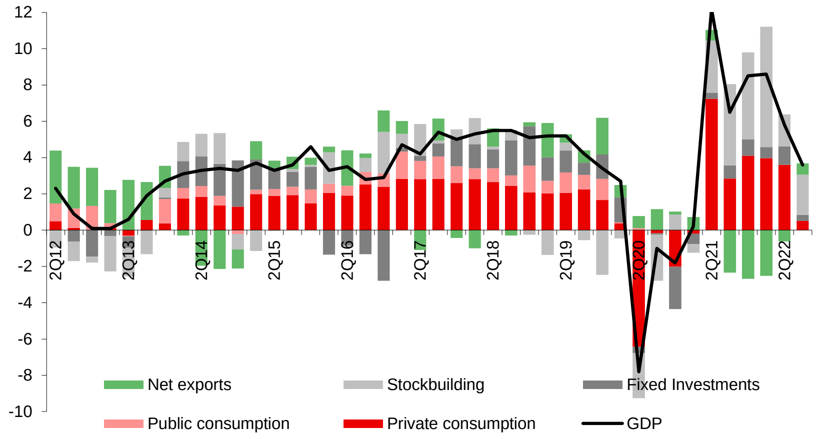
after falling by 7.2% q/q in 2Q. Clearly, since the pandemic, the GUS has struggled to correctly adjust some categories for seasonality.

We think that the Polish economy will keep slowing in the coming quarters, amid deteriorating sentiment, high interest rate environment, potential energy shortages. We expect 4Q22 and 1Q23 to show negative q/q growth. In 1Q23 a clearly negative y/y print is also possible. A gradual economic recovery should be felt in 2H23, but 2023 full-year GDP growth may be close to zero. The surprising weakness of private consumption will strengthen the MPC's resolve to keep interest rates steady and keep communicating the shift of focus from CPI to the economic slowdown.

GDP growth breakdown, demand side (% y/y)



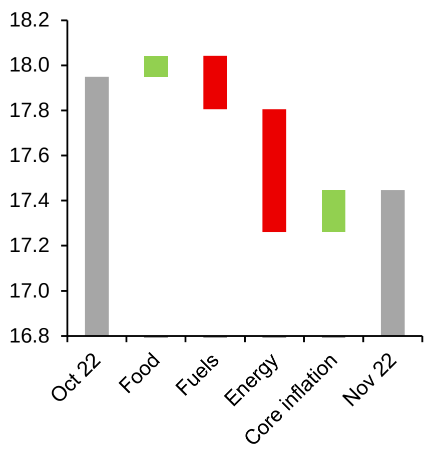
Source: GUS, Santander

Inflation slightly down, finally

CPI inflation eased to 17.4% y/y in November from 17.9% y/y in October, as compared to our and market forecasts of a slight increase to 18.0% y/y. The annual CPI declined for the first time since February. Energy prices were the main culprit, as they fell by 0.1% m/m and declined for the first time since February. Due to the base effect, this movement subtracted as much as 0.5 percentage points from the annual inflation rate. We do not yet know the breakdown of this change, but we suspect a marked fall in coal prices. Fuel prices fell by 1.2% m/m and food prices rose by 1.6% m/m, with core inflation rising to 11.2-11.3% y/y from 11.0% y/y, according to our estimates. Price changes in these categories were in line with our assumptions in terms of direction, but all pointed to slightly lower prices than we had expected.

We believe that inflation will remain close to the November level in December, with a possible rebound in early 2023 linked to the withdrawal of the 'Anti-Inflation Shield'. We do not yet know all the details of the 'Shield' cancellation and of the possible new measures, but in our view inflation could break 20% in February before embarking on a downward trend and sliding to around 10% at the end of 2023.

Breakdown of change in CPI, % y/y



Source: GUS, Santander