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Economic Comment

Consumption slowed GDP

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GDP growth in 4Q22 slowed to 2.0% y/y, in line with the flash estimate. After seasonal adjustment GDP fell by 2.4% q/q. The breakdown of GDP in 4Q22 was very close to our estimates, based on earlier released data for the entire year: private consumption contracted -1.5% y/y, fixed investments expanded 4.9% y/y, inventories added 1.1pp to GDP growth, net exports added 0.9pp. Such breakdown of economic growth, should it persist, should be quite favourable for disinflation. Later this year, however, we expect a gradual recovery in consumer demand and a deterioration in investments.

We continue to expect GDP growth (y/y) to fall below zero in Q1 and then to recover slowly in subsequent quarters, averaging just below 1% y/y in 2023.

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GDP growth and its components (% y/y)

	2021	2022	4Q21	1Q22	2Q22	3Q22	4Q22
GDP	6.8	4.9	8.5	8.6	5.8	3.6	2.0
Domestic demand	8.4	5.5	11.8	12.0	6.9	3.1	1.1
Total consumption	5.9	2.1	7.7	5.1	4.8	0.7	-1.5
Private consumption	6.3	3.0	8.5	6.7	6.4	0.9	-1.5
Public consumption	5.0	-0.3	5.6	0.3	0.6	0.1	1.1
Gross accumulation	18.1	16.8	23.7	45.1	15.1	11.4	8.0
Fixed investment	2.1	4.6	3.8	4.7	6.6	2.0	4.9
Stock building *	3.0	2.8	4.8	6.6	1.8	2.2	1.1
Net export *	-1.0	-0.4	-2.7	-2.5	-0.6	0.6	0.9

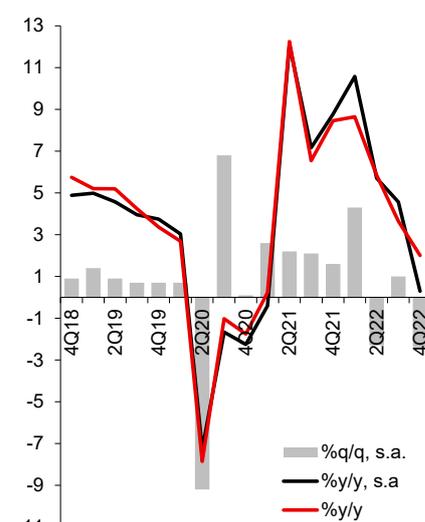
* contribution to GDP growth (percentage points),

Source: GUS, Santander

What deserves attention is a very poor performance of consumer demand: private consumption fell -2.5% q/q s.a., which is the biggest contraction on record except for Covid-affected 2Q20, and also the second quarter of decline in a row (following -0.7% q/q in 3Q22). At the same time, gross value added in trade and repairs slowed from 0.1% to -2.5% y/y and collapsed -5.4% q/q s.a. (also the second biggest drop in history). While we have some doubts regarding the reliability of seasonally-adjusted numbers (it is quite likely the data may be revised substantially after some time, as happened also with the previous quarters), it is hard to deny that the consumer demand slowed down massively at the end of 2022. It can explain to some extent why inventories were still building at the end of the year. We think the consumption weakness is likely to persist at the start of 2023, however later during the year it should start picking up. The worries about possible energy shortage during winter are gone, just like worries about potential further rate hikes, consumers have deleveraged (prepaid lots of loans) and may be less willing to do so in the coming months, also the deterioration in real wage growth should start reversing soon.

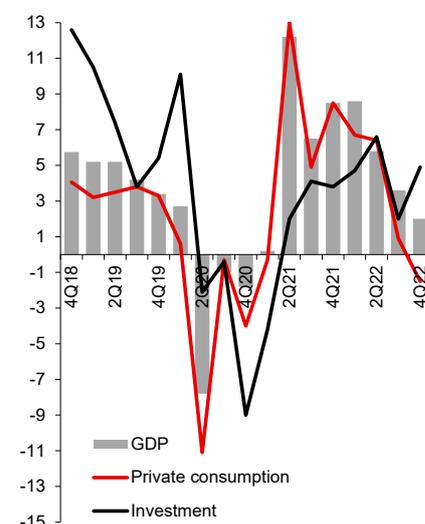
Fixed investments were doing surprisingly well in 4Q22 but we do not know exactly to what extent it was driven by companies' development spending and to what extent it was the government military expenditure. We expect to see clear investment slowdown further down the road, amid worsening financial conditions and further delay in unblocking EU funding.

GDP growth



Source: GUS, Santander

GDP and its components, % y/y



Source: GUS, Santander

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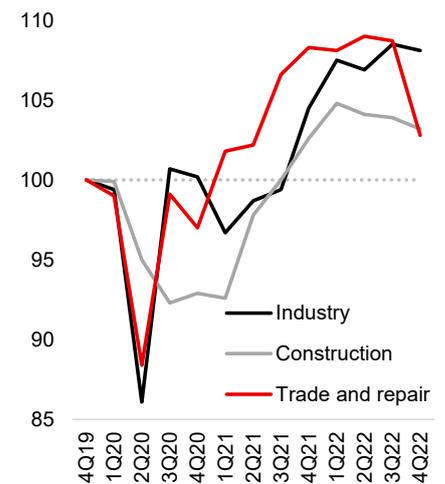
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Gross Value Added of the Polish economy dropped by 2.4% q/q in 4Q22 which is the worst print since 2Q20 when the pandemic started. This means a further slowdown in y/y terms, to 2.4% from 3.3% in 3Q22 and 8.4% in 1Q22. There was a large decline in the value added delivered by the trade sector, -5.4% q/q, despite the previous quarter already showing a drop of 0.3%. This sent the y/y measure to -2.5% from 0.1%. Construction sector showed the third negative q/q growth in a row, but so far the deterioration was quite small (4Q was only some 1.6% below the 1Q22 peak). Industry also was relatively resilient, down just 0.4% q/q in value added terms. This was enough to send the share of industry in total value added to its all-time high. Information and communication, financial and insurance sector were the only ones to show value added rising q/q in 4Q after seasonal adjustment.

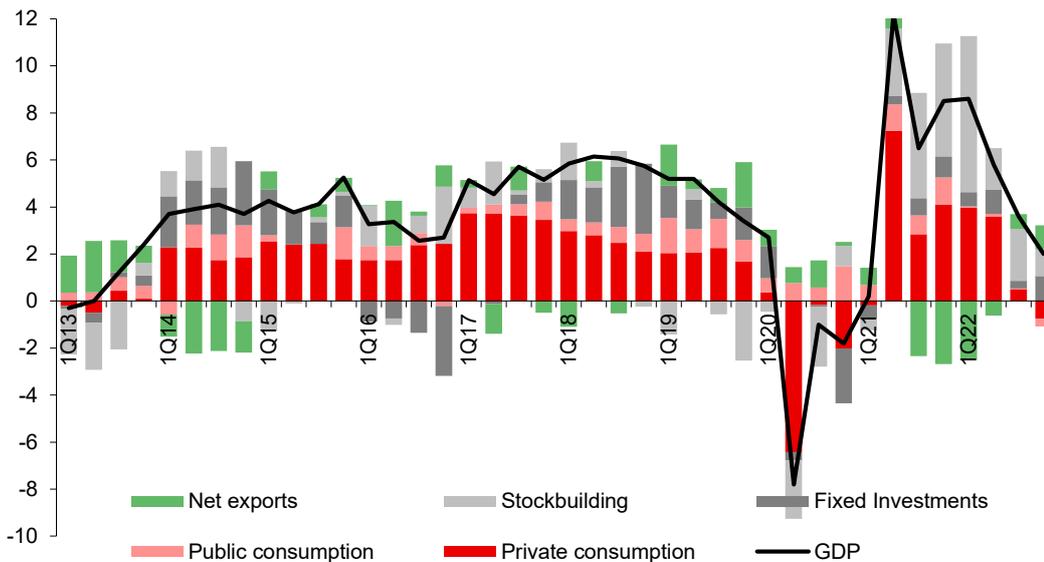
We still expect GDP growth (y/y) to fall below zero in 1Q23 and then recover slowly in the following quarters, averaging just below 1% y/y in 2023.

Gross Value Added in selected sectors, 4Q19=100



Source: GUS, Santander

GDP growth and its components (% y/y)



Source: GUS, Santander

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