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Economic Comment

Consumers gain optimism, companies invest

Marcin Luziński, tel. 510 027 662, marcin.luzinski@santander.pl

Grzegorz Ogonek, tel. 609 224 857, grzegorz.ogonek@santander.pl

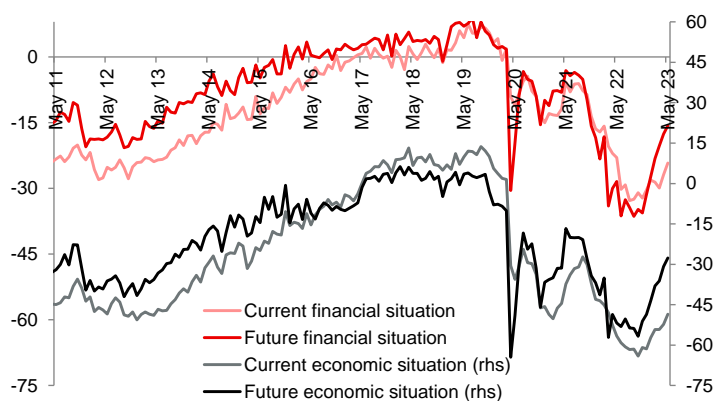
In May, consumer confidence improved more than we had expected and the improvement covered all components. The data suggest that a rebound in private consumption is approaching. According to data on the results of Polish non-financial companies employing 50+ persons, in 1Q23 there was a decline - but no collapse - in profit margins, forced by weakening demand. Investment in biggest companies rose a bit less than in late 2022, but were stronger than we expected, so investment could be a reason behind higher-than-expected GDP in 1Q23.

Consumers feel an improvement

In May, consumer confidence improved more than we had expected. The aggregate current assessment index was -29.9 pts, up from -32.3 pts, and it is now the strongest since February 2022. It set the all-time low seven months ago and since then it has already covered half of the way towards the long-term average. The aggregate expectations index was -15.3 pts, up from -19.7 pts, which is the strongest print since October 2021, and the May rise made it cross the long-term average.

All confidence components were stronger than in April. What improved the most is consumers' job security and the measure of the possibility to save money in the next 12 months (the latter was going down at the time of growing headline CPI inflation but has now improved substantially when there is clear disinflation). There was also a rebound in the share of consumers claiming they are able to save now (to 54% from 48%) while the share of those claiming they need to draw from their savings to make ends meet declined to the lowest level in a year. The smallest improvement was seen in major purchases index which remains relatively low. The May edition of the consumer confidence survey suggests a rebound in private consumption.

Selected components of consumer confidence



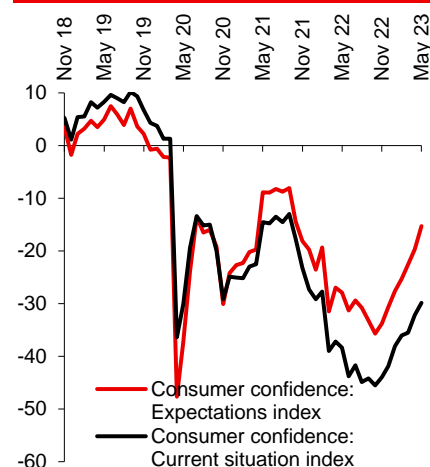
Source: GUS, Santander

Company results in 1Q – gradual decline of profit margins

In 1Q23 Polish non-financial companies employing 50+ persons saw revenues going up 18.0% y/y vs. 16.8% y/y in 4Q22. Costs were up 19.1% y/y (up from 17.7% y/y in 4Q22) - the quickest growth was seen in energy, 44.4% y/y, and taxes, 36.8% y/y. Wage bill was up 17.3% y/y and it is its strongest growth so far in this period of heightened inflation. The aggregate gross and net financial results were almost unchanged y/y, which in the environment of double-digit inflation does not look like a great outcome.

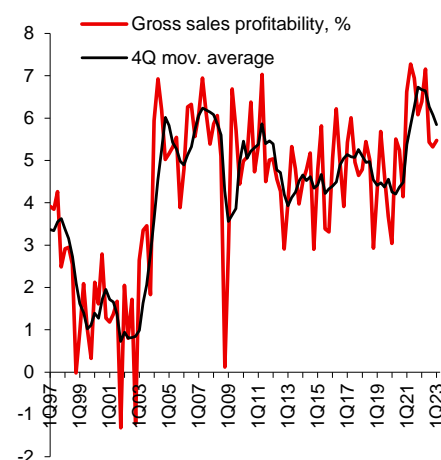
Average profit margin expressed as 4-quarter moving average was 5.8%, down from 6.1% in 4Q22 with the peak seen at 6.7% at the turn of 2021 and 2022. The current level is however

Main consumer confidence indicators



Source: GUS, Santander

Average profit margin among non-financial companies employing 50+ persons



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 691 393 119
 Cezary Chrapek, CFA +48 887 842 480
 Marcin Luziński +48 510 027 662
 Grzegorz Ogonek +48 609 224 857

not far below the local top reached in the high growth environment of 2006-2008 (6.2%). The long-term average for this measure is 4.2%, so we still would not say the margins collapsed in Poland – they are going down but in a controlled manner. It seems that the weakening of demand forced companies to correct their margins lower.

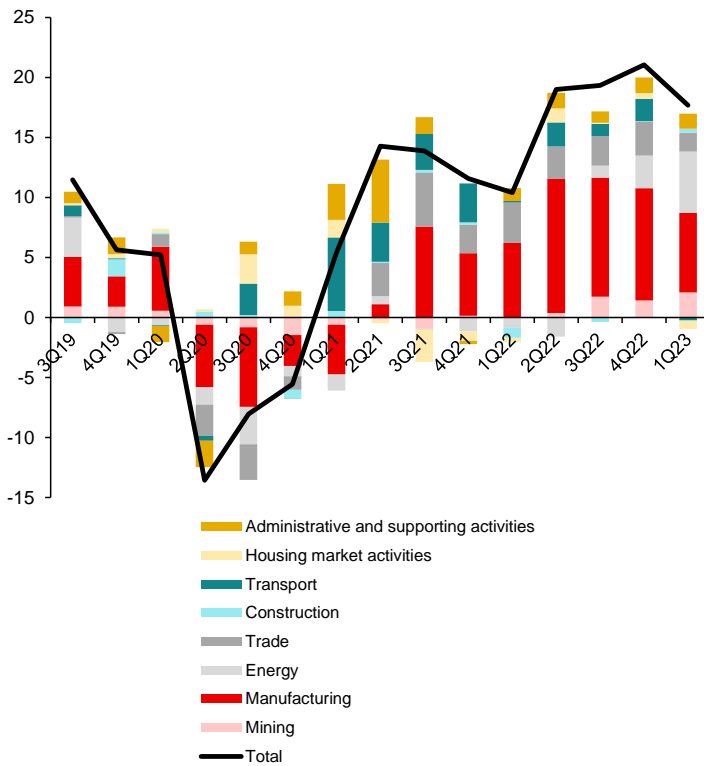
Investments above expectations

Investment in biggest companies rose by 7.2% y/y in 1Q23 as compared to 7.6% y/y in 4Q22. This is more than we expected, so investment could be a reason behind higher-than-expected GDP in 1Q23.

Investment in buildings improved to 4.9% y/y from 4.0%, while other categories slowed slightly: in machinery to 5.9% y/y from 7.0% y/y and in means of transport to 15.1% y/y from 21.2% y/y. Highest growth rates were recorded by utilities (59.4% y/y in nominal terms), mining (55.0% y/y in nominal terms) and construction (20.1% y/y in nominal terms). Meanwhile, investment in manufacturing eased to 17.7% y/y in 25.9% y/y in 4Q22.

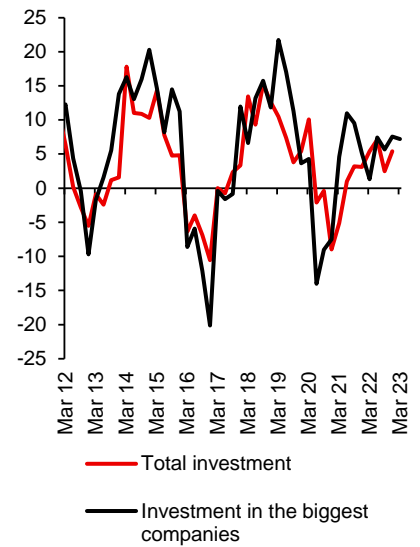
We do think however that the investment sentiment may remain depressed in the upcoming quarters, before a more pronounced recovery steps in.

Breakdown of investment in biggest companies by sector, % y/y, nominal terms



Source: GUS, Santander

Investment in total economy and in biggest companies, % y/y, real terms



Source: GUS, Santander

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw, Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.