

## Economic Comment

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### CPI flattens, consumers drive GDP

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According to the flash reading, CPI inflation fell in November to 6.5% y/y from 6.6% y/y, surprising slightly downwards. Core inflation appears to have contributed to this, falling to around 7.2% y/y from 8.0% y/y, below forecasts (us: 7.5% y/y, market: 7.6% y/y). A six-month freeze in energy prices would open the way for inflation to fall further, to around 4% y/y in the spring, after which it would return above 6% y/y.

3Q GDP growth came in at 0.5% y/y, slightly higher than the statistical office's initial estimate of 0.4% y/y, which corresponded to a seasonally adjusted rebound of 1.5% q/q. The main factor behind the economy's re-acceleration was private consumption, which grew by 0.8% y/y in 3Q23 and by 2.3% q/q on a seasonally adjusted basis, the strongest since 1Q22. There was also a massive inventory reduction and a decline in imports. Overall, however, the data confirm the materialisation of our expected economic acceleration scenario, driven mainly by domestic consumption and, to a lesser extent, investment. We expect this trend to continue in the coming quarters, bringing GDP growth to 3% in 2024. The growth breakdown is not particularly favourable for further disinflation.

#### Marginal CPI inflation decline in November

CPI inflation inched down in November to 6.5% y/y from 6.6% y/y in October, according to the flash estimate. The reading was slightly lower than forecasts (we and consensus: 6.6% y/y). Prices in non-core categories were a bit higher than we had assumed, with food advancing by 0.8% m/m, fuels by 8.8% m/m and energy prices going down by 0.1% m/m. Meanwhile, core inflation seems to have dropped to 7.2% y/y versus our call at 7.5% y/y and market consensus at 7.6% y/y.

We think that CPI will remain fairly stable in December before falling below 6% y/y in January, assuming that prices of energy will be frozen in line with a bill presented recently by the MPs from KO and Trzecia Droga. We think CPI is likely to go down to 4% y/y in March-April before rebounding above 6% y/y in 2H24. We are expecting the core inflation to continue easing in the months to come, towards 4% y/y at the end of 2024.

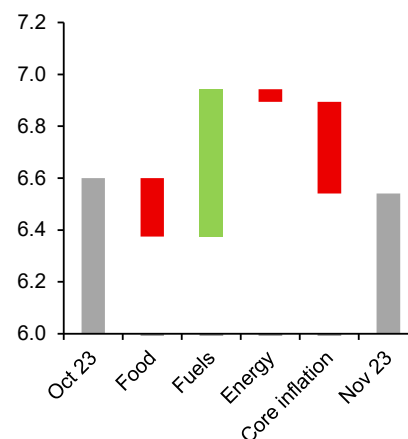
#### GDP re-accelerates, fueled by consumer demand

GDP growth in 3Q23 reached 0.5% y/y (revised up from 0.4% flash release), which corresponded to 1.5% q/q sa jump (revised up from 1.4%). The main driver behind the re-acceleration of the economy was private consumption, which rose 0.8% y/y in 3Q, visibly stronger than we predicted (-0.5% y/y). In seasonally adjusted terms, private consumption soared 2.3% q/q, at its fastest pace since 1Q22, when the economy was in the peak of the post-pandemic recovery and overheating. We have long anticipated an imminent revival of the consumer demand, but it seems that it is taking place even faster than we have thought. The second important driver of GDP was investments, rising 7.2% y/y and 1.0% q/q s.a.

On the other hand, economic activity in 3Q23 was strongly depressed by a massive de-stocking: contraction of inventories trimmed GDP growth by as much as 7.7 percentage points. At the same time, net exports contributed positively, adding almost +6pp, as imports fell more significantly than exports in 3Q (-20.3% y/y and -11.0% y/y, respectively).

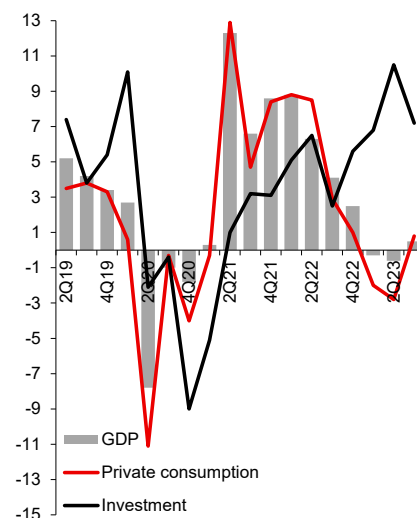
As usual, it is questionable whether the data on GDP's breakdown correctly reflect the developments in the economy, especially given the astonishing, biggest ever reduction in inventories (which, despite the decent performance of consumption and investment, brought domestic demand down to -5.2% y/y), and the considerable depth of the 3Q decline in import, which after seasonal adjustment was almost as large as in 2Q20, the quarter most affected by the COVID shock. It is possible that - as has been the case in the past - over time

CPI inflation change, breakdown, %y/y



Source: GUS, Santander

GDP and its components, % y/y



Source: GUS, Santander

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further publications will bring about revisions and slightly alter the picture which currently emerges from GUS's data.

### GDP growth and its components (% y/y)

	2021	2022	3Q22	4Q22	1Q23	2Q23	3Q23
GDP	6.9	5.3	4.1	2.5	-0.3	-0.6	0.5
Domestic demand	8.5	5.2	3.1	1.0	-4.8	-2.9	-5.2
Total consumption	5.8	4.1	3.0	-0.9	-1.6	-1.6	1.3
Private consumption	6.2	5.2	2.9	1.0	-2.0	-2.8	0.8
Public consumption	5.0	0.3	3.0	-6.2	-0.3	2.2	3.3
Gross accumulation	19.4	9.2	3.5	5.8	-17.7	-8.3	-28.1
Fixed investment	1.2	4.9	2.5	5.6	6.8	10.5	7.2
Stock building *	3.4	1.2	0.4	0.4	-4.4	-3.0	-7.7
Net export *	-1.1	0.2	1.1	1.6	4.6	2.1	5.9

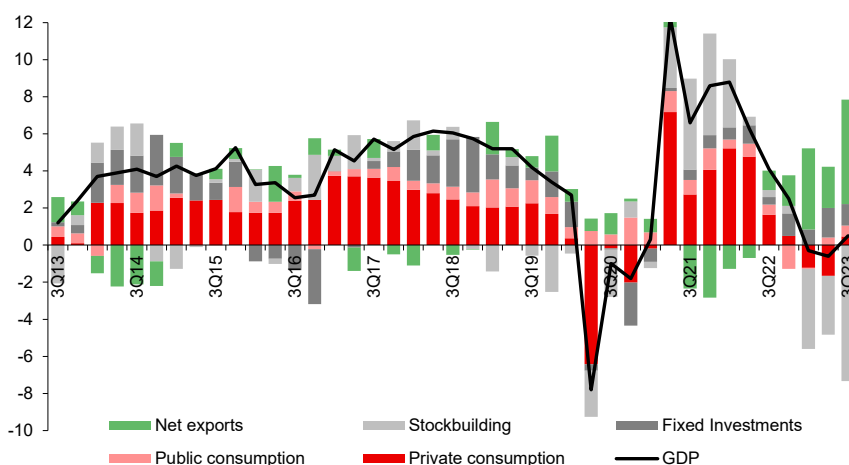
\* contribution to GDP growth (percentage points)

Source: GUS, Santander

Overall, the data confirm our scenario of economic re-acceleration, driven mainly by domestic consumption, and – to a lesser extent – by investment. We expect this trend to continue in the coming quarters, bringing GDP growth towards 3% in 2024. The breakdown of growth is not particularly supportive for further disinflation. Still, inflation is likely to go further down in early 2024, thanks to a probable freeze of energy prices, to the zloty strengthening, global tendencies and high statistical base effects (until March).

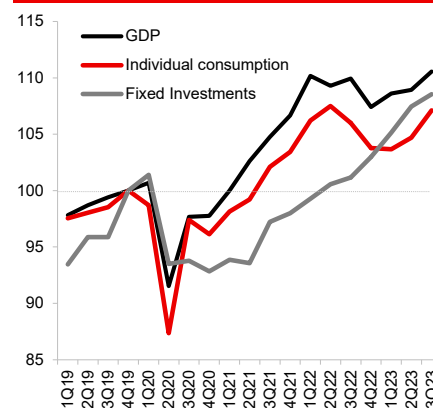
Private consumption will remain the key engine of the recovery, being boosted by solid real income growth of households. Investments may slow, but should continue growing, in our view. Net exports' contribution to GDP growth may soon turn negative, as the reviving domestic demand would support imports, while exports may remain depressed amid poor activity in the euro area.

### GDP growth and its components (% y/y)



Source: GUS, Santander

### GDP and its components, s.a. 4Q19=100



Source: GUS, Santander

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