

Disinflation ahead

TOP MACRO THEME(S):

- **Disinflation ahead (p. 2):** CPI inflation in November surprisingly dropped to 17.4% y/y from 17.9% y/y in October. Core inflation momentum is weakening. The structure of GDP growth is becoming less and less inflationary, and declining consumption will help to push inflation down.

WHAT ELSE CAUGHT OUR EYE:

- **Manufacturing PMI in November rose to 43.4 from 42.0 in October.** Despite the increase of the headline figure to the highest level in 5 months, the condition of the sector (as shown by the PMI components) keeps deteriorating. Production and new orders sub-indices have increased slightly, but remain well below the neutral level of 50pts. High inflation, war and general uncertainty are hindering demand. Companies are completing previously accumulated orders, but this 'backlog cushion' is rapidly shrinking.
- **Investments of large corporates (employment >49 persons) in 3q22 increased by 15% y/y, both in the case of domestic and foreign-owned companies.** In the face of the upcoming global economic downturn, activity of foreign investors may be particularly important for Poland's export performance. Thanks to new plants/lines openings, Poland's exports might keep growing even despite weaker external demand, being insensitive to its changes in the initial start-up phase of new investments.
- According to a recent report by Reuters and Maersk, **Poland is among the most attractive locations for near-sourcing and shoring.** For European companies Poland is ranked 1st. For all companies worldwide Poland is 4th most attractive globally an 2nd most attractive in Europe, just behind Germany.
- Zero VAT on food will be maintained at least for the first half of 2023, costing the state budget PLN 8bn.

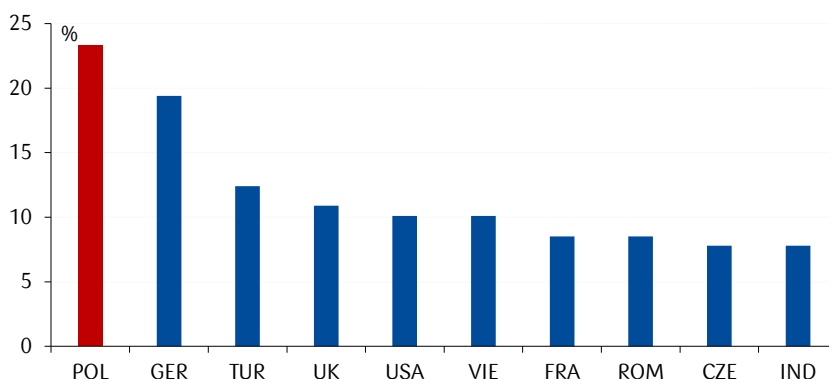
THE WEEK AHEAD:

- **We expect the MPC to keep rates unchanged at 6.75% on Wednesday.** The disinflationary data released since the previous meeting gives the MPC a lot of arguments not to resume the cycle of rate hikes, and maybe start cutting rates in the second half of 2023.

NUMBER OF THE WEEK:

- -31% y/y – decline in apartment sales in November in 7 largest cities in Poland (source: RynekPierwotny.pl, which aggregates data for the primary market).

Chart of the week – Most popular sourcing and reshoring locations for European companies



Source: Reuters/Maersk, PKO Bank Polski.

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	2021	2022 _†
Real GDP (%)	6.8	4.3
Industrial output (%)	15.6	10.3
Unemployment rate [#] (%)	5.4	5.2
CPI inflation ^{**} (%)	5.1	14.4
Core inflation ^{**} (%)	4.1	9.0
Money supply M3 (%)	8.9	5.8
C/A balance (% GDP)	-1.4	-4.2
Fiscal balance (% GDP)*	-1.9	-2.1
Public debt (% GDP)*	53.8	50.7
NBP reference rate ^{##} (%)	1.75	6.75
EURPLN ^{###}	4.60	4.80

Source: GUS, NBP, MinFin, †PKO BP Macro Research team forecasts;‡PKO BP Market Strategy team forecasts; *ESA2010, **period averages; #registered unemployment rate at year-end; ##at year-end. ^under revision.

Disinflation ahead

- CPI inflation in November declined to 17.4% y/y vs. 17.9% y/y in October, while market forecasts ranged between 17.5% and 18.6% with median pointing to an increase to 18.0%. Core inflation momentum has weakened. We still expect that CPI inflation will peak in 1q23 and then start declining.
- The structure of GDP is becoming less and less inflationary, and declining consumption will help to push inflation down.

CPI inflation declined in November, for the first time in over a year (excluding one-off in February 2022 when anti-inflationary VAT cuts were introduced), to 17.4% y/y vs. 17.9% y/y in October. The reading was close to our call (17.6 y/y, the second lowest estimate in the market), but significantly below the market consensus (18.0% y/y). It was the first time since November 2018 that CPI inflation proved to be lower than the lowest forecast in the consensus survey. The factor behind it was solid monthly drop in energy and fuel prices.

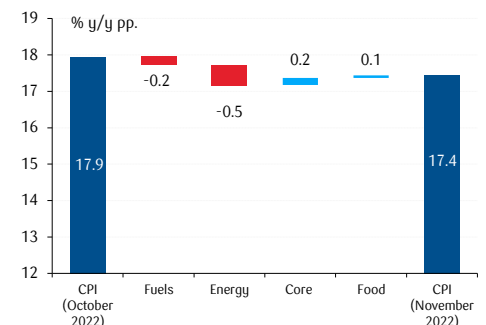
The prices of energy carriers fell by 0.1% m/m, marking the first monthly decline since February. In our opinion it was driven mainly by lower prices of solid fuels, as the local governments stepped into the coal markets offering subsidised coal and demand weakened a bit. The annual growth rate of energy prices decreased for another month in a row, to 36.8% y/y, supported by high statistical base effect. Prices of food and non-alcoholic beverages increased by 22.3% y/y (vs. 22.0% y/y in October) and by 1.6% m/m (vs. 2.7% m/m in October). We see that monthly changes of food prices are slowing, as the deviation from seasonal pattern is somewhat smaller than before. There are many indications that food inflation is approaching its peak - in 2023, the pressure on disinflation will be exerted, among others, by the current declines in international prices of food commodities (FAO index), although this trend will be weakened by still strong cost pressures. It is however worth noting that in the manufacturing sector cost pressures are normalising, as indicated by the recent falls of PPI inflation. This was further confirmed by the November PMI survey, which showed that the cost inflation sank to its lowest level for over 2 years.

Core inflation increased, on our estimates, to 11.2-11.3% from 11.0% in October. Its momentum remains historically high, but is slowing down. Companies are still able to efficiently pass higher costs to final prices, but the slowing demand and deteriorating economic situation are gradually hindering this process.

The detailed GDP data for 3q22 suggests that the disinflation is under way. The main component responsible for the decline in the annual GDP growth rate to 3.6% y/y from 5.8% y/y in 2q22 were domestic sales (domestic demand without inventories). Its contribution to GDP growth decreased from 4.7pp in 2q22 to 0.8pp in 3q22, signalling that the expected slowdown in economic growth has already started to materialize. Private consumption came close to stagnation, growing only 0.9% y/y vs. 6.4% y/y in 2q22. The increase in the deflator accounts for about ¼ of the real consumption deceleration. In the remaining part, it is the effect of deep declines in real income combined with the utilisation of the post-pandemic saving buffer. Investment demand remained moderate, with a tendency to weaken - investment grew 2.0% y/y (vs. 6.6% y/y in 2q22). GDP growth will continue to decelerate, reflecting the consumer sector recession. At the same time, the structure of GDP is becoming less and less inflationary. Declining consumption will help to push inflation down.

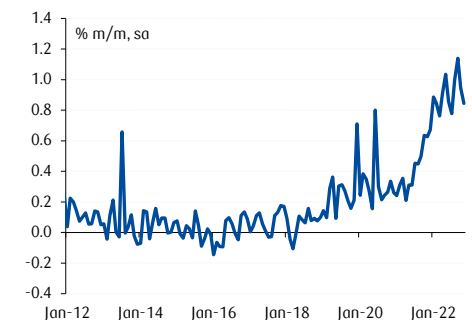
We assume that CPI inflation will peak in 1q23, slightly above 20% y/y. This will be driven by low base effect and return to higher VAT rates in the case of energy and fuels. The remainder of 2023 will be marked by rapid disinflation, and at the end of the next year CPI will fall to a single-digit level. Various (imperfect) measures of consumer inflation expectations are also moving downwards. **This gives the MPC a lot of arguments not to resume the cycle of rate hikes, and maybe to start cutting rates in the second half of 2023.**

1. The decomposition of inflation change vs. October



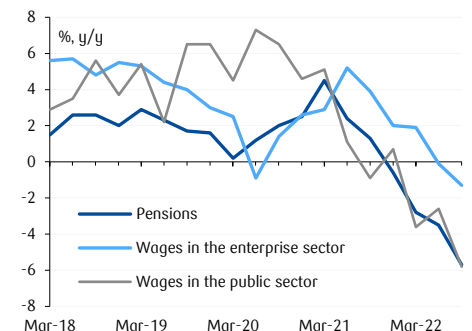
Source: GUS, PKO Bank Polski.

2. The momentum of core inflation



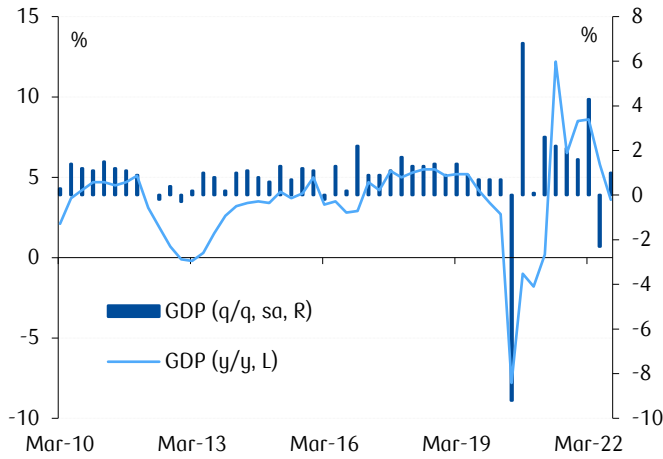
Source: GUS, PKO Bank Polski.

3. Real incomes in the households' sector

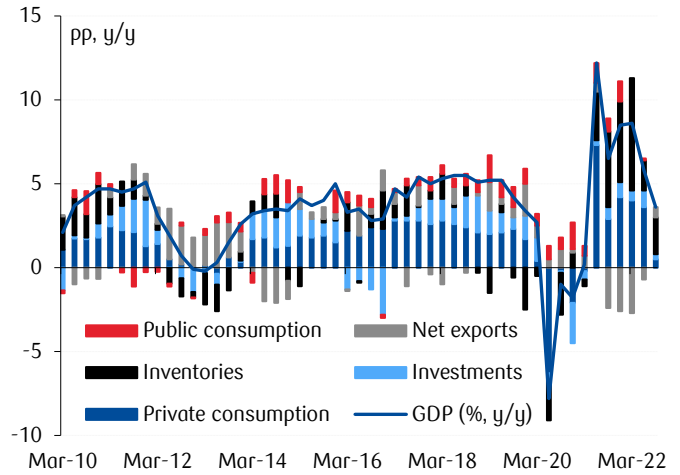


Source: GUS, PKO Bank Polski.

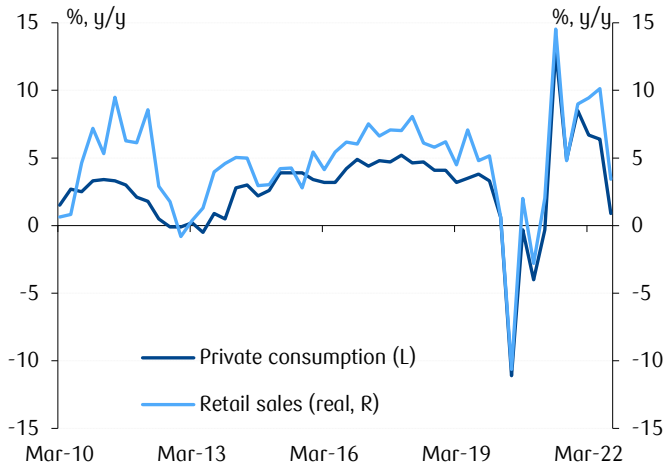
4. GDP growth



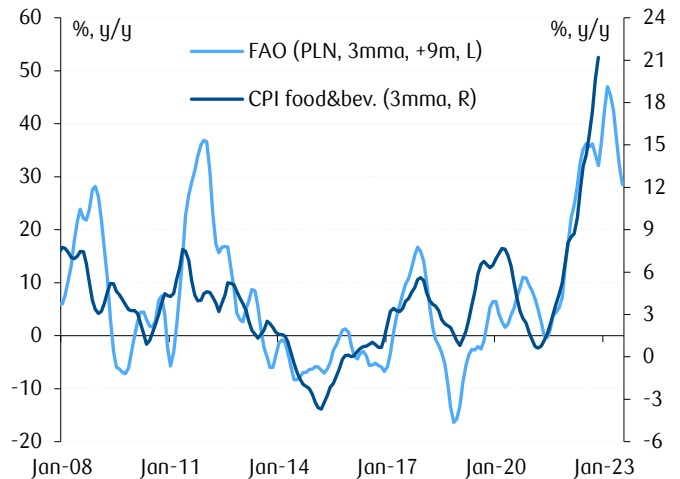
5. Decomposition of GDP dynamics



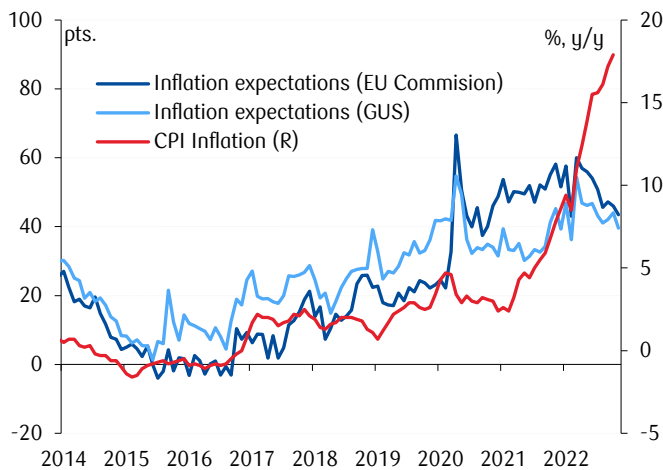
6. Retail sales vs. consumption



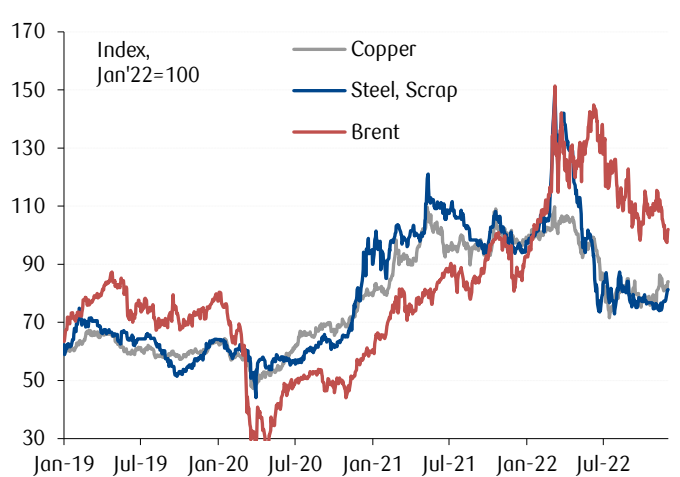
7. International food prices vs. CPI



8. CPI and inflation expectations



9. Prices of selected commodities (in PLN)



Source: GUS, Macrobond, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 5 December						
GER: Services PMI (Nov, final)	8:55	pts.	46.5	46.4	--	--
EUR: Services PMI (Nov, final)	9:00	pts.	48.6	48.6	--	--
EUR: Sentix Index (Dec)	9:30	pts.	-30.9	--	--	--
EUR: Retail sales (Oct)	10:00	% y/y	-0.6	--	--	--
USA: Factory orders (Oct)	15:00	% m/m	0.3	0.7	--	--
USA: Durable goods orders (Oct, final)	15:00	% m/m	1	--	--	--
Tuesday, 6 December						
GER: Factory orders (Oct)	7:00	% m/m	-4	--	--	--
GER: Factory orders (Oct)	7:00	% y/y	-10.8	--	--	--
USA: Trade balance (Oct)	13:30	--	--	--	--	--
Wednesday, 7 December						
EUR: GDP growth (3q)	10:00	% y/y	4.1	2.1	--	--
POL: NBP base rate (Dec)	--	%	6.75	6.75	6.75	The disinflationary data released since the previous meeting gives the MPC arguments to keep rates unchanged.
Thursday, 8 December						
USA: Initial Jobless Claims (Dec)	13:30	--	225	--	--	--
Friday, 9 December						
CHN: PPI inflation (Nov)	1:30	% y/y	-1.3	-1.4	--	--
CHN: CPI inflation (Nov)	1:30	% y/y	2.1	1.6	--	--
USA: PPI inflation (Nov)	13:30	% y/y	8	--	--	--
USA: University of Michigan sentiment (Dec, flash)	15:00	pts.	56.8	56	--	--

Source: GUS, NBP, Parkiet, PAP, Bloomberg, Reuters, PKO Bank Polski. Parkiet for Poland, Bloomberg, Reuters for others.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
J. Tyrowicz	5.0	"In my opinion, lack of interest rates hike [PAP: in November] was a big mistake, for which (...) millions of Poles will pay, paying more in shops and covering higher cost of living each day amid lack of pay rises that would be proportionate to price rise" (15.11.2022, wyborcza.pl, PAP)
L. Kotecki	4.8	"In the nearest future, it seems that there is still room [PAP: for action] on the side of the monetary policy, unfortunately, as the situation is very serious." "The inflation is by far the biggest problem in Poland." (16.11.2022, PAP)
P. Litwiniuk	3.7	"There is still room for some monetary policy tightening to make real interest rates less negative, which would impact expectations of consumers and producers when it comes to inflation level" (21.11.2022, TOK FM, PAP)
H. Wnorowski	2.7	"In my opinion, it cannot be unequivocally declared that this is the end of interest rate hikes. However, I think it may be the end of this cycle, given the favourable circumstances and a high probability that the scenario from the November projection will come true. (...) Our break proves that we do not want decisions on further hikes which would perhaps speed up the pace of reaching the target but result in costs that are too high." (29.11.2022, Reuters)
A. Glapinski	2.4	"We are not ending the tightening cycle (...) For now, the MPC is in the wait-and-see mode (...) As for any future loosening, discussion on timing seems premature." (10.11.2022, NBP press conference, PAP)
C. Kochalski	2.4	"In my opinion, if we were to raise interest rates further, we would add many disinflationary impulses. So we would increase the likelihood of the economic downturn. Of course, through this channel we would be able to lower the price dynamics faster. But since I see inflation in the projection horizon, I am willing to accept this rate of return a little longer." (28.11.2022, interia.pl)
W. Janczyk	2.0	"The current rates level seems adequate given the information we have today. (...) " in my opinion, in the course of the last few weeks, there has come no information that would prompt resumption of rate hikes in December. Currently, no premises can be seen that would prompt such steps." (2,12.2022, PAP).
I. Duda	2.3	"In the current situation, in the light of available data and forecasts, particularly NBP's inflation projection, the rates level is optimal." (30.11.2022, PAP)
G. Maslowska	2.1	"I believe there is a chance for the interest rates to be able to settle at the current level for many months (...) Should it happen indeed, it would give the MPC members the comfort of observing the effects of to-date hikes, which influence various types of economic processes with a several months' time shift." (17.11.2022, radiomaryja.pl, PAP)
I. Dabrowski	1.9	"The markets are right to assume that we might see the first rate cuts as soon as next year. (...) Our interest rates are well calibrated to bring down the headline and core inflation. (...) We will fight inflation, but not at the cost of a dramatic fall in GDP. Crazy rate hikes won't do anything and could be counterproductive, hitting growth hard." (28.10.2022, Bloomberg)

*the higher the indicator the more hawkish views. The positioning has been made based positively on PAP survey conducted among economists at banks in Poland (scale 1-5). ^Quotes in bold have been modified in this issue of Poland Macro Weekly.

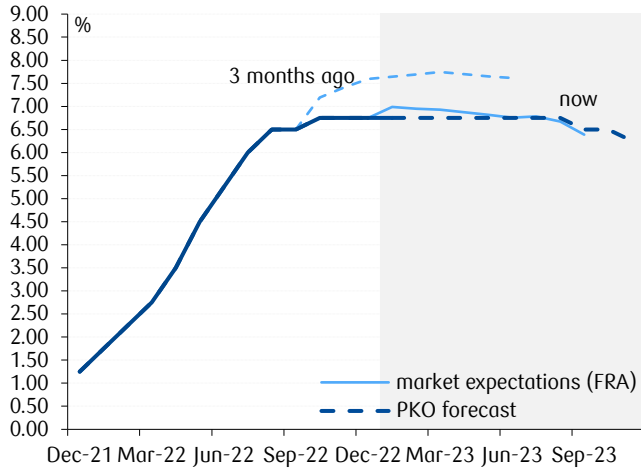
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	1-Dec	1-Jan	1-Feb	1-Mar	1-Apr	1-May	1-Jun	1-Jul	1-Aug	1-Sep
WIBOR 3M/FRA†	7.25	7.19	7.15	7.13	7.08	7.02	6.96	6.98	6.87	6.59
implied change (b. p.)		-0.06	-0.10	-0.13	-0.18	-0.23	-0.30	-0.27	-0.38	-0.67
MPC Meeting	7-Dec	4-Jan	8-Feb	8-Mar	5-Apr	10-May	6-Jun	6-Jul	-	6-Sep
PKO BP forecast*	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50
market pricing*		6.69	6.65	6.63	6.58	6.52	6.46	6.48	6.37	6.09

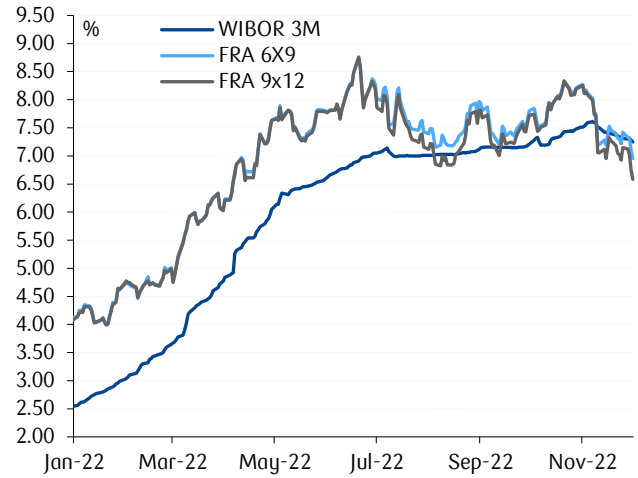
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

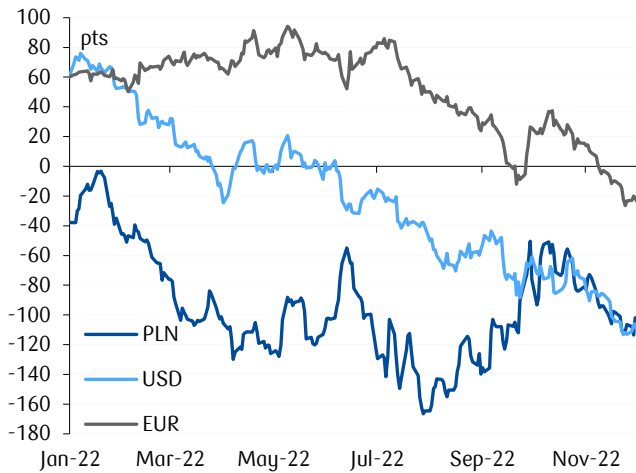
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



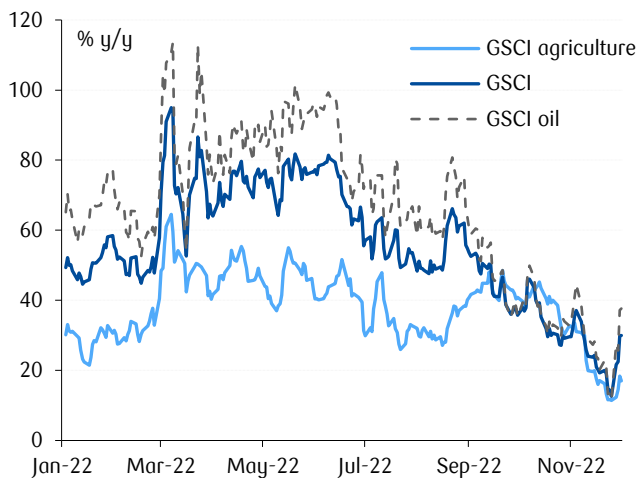
Slope of the swap curve (spread 10Y-2Y)*



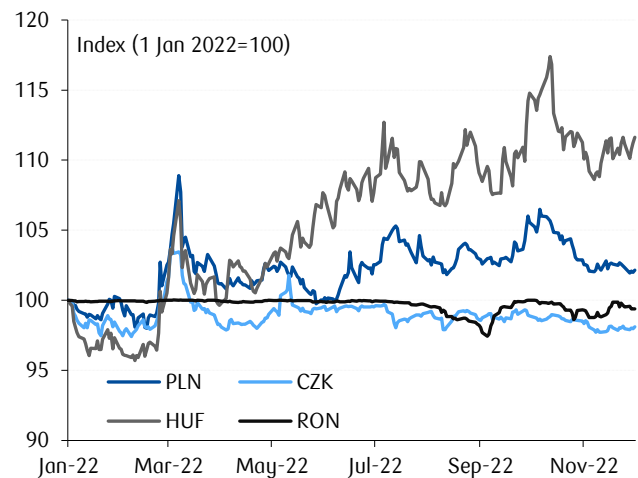
PLN asset swap spread



Global commodity prices (in PLN)

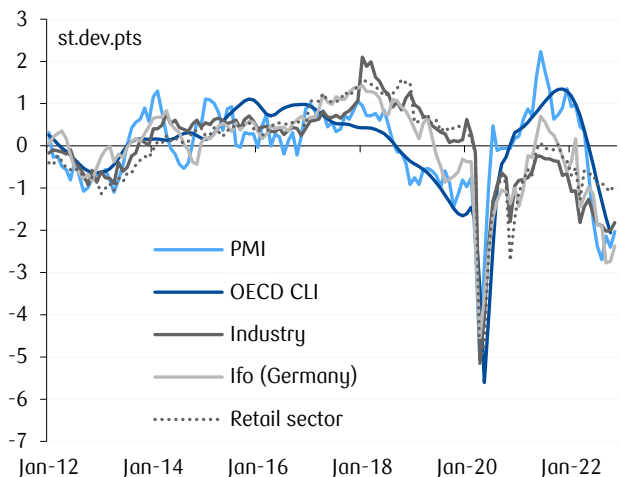


Selected CEE exchange rates against the EUR

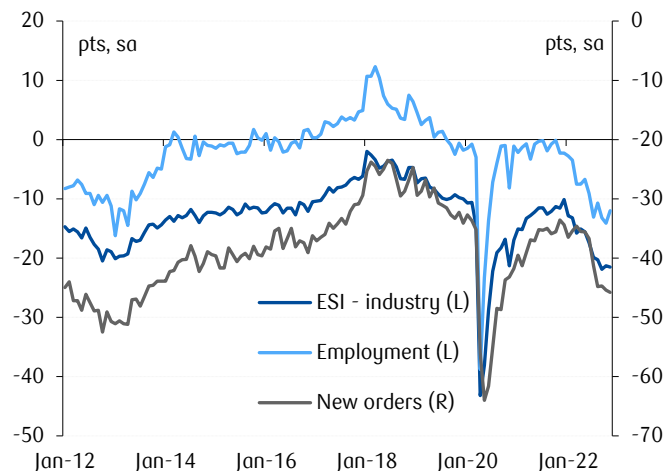


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

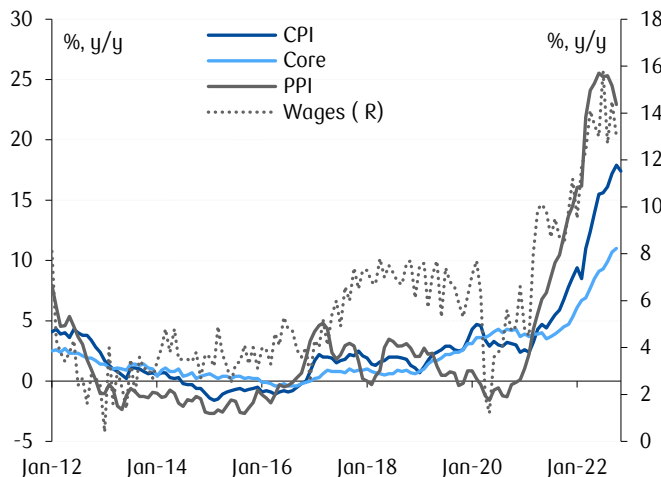
Economic sentiment indicators



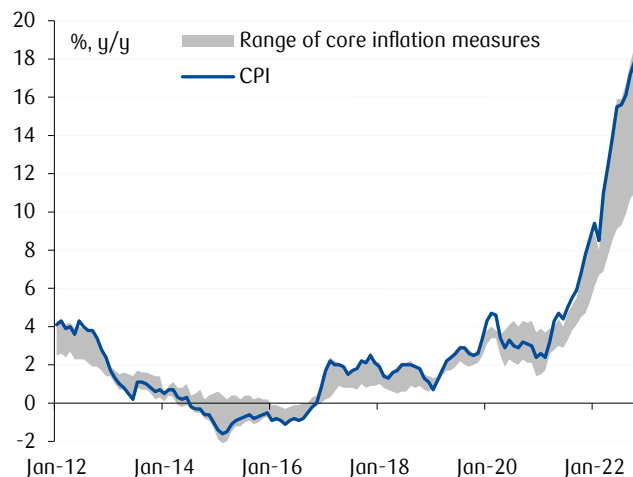
Poland ESI for industry and its components



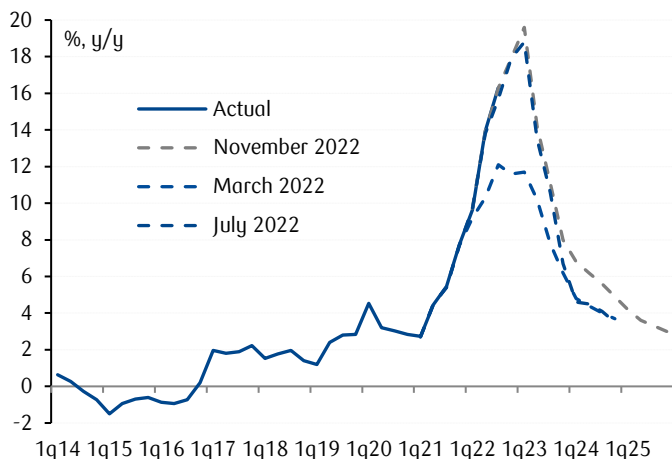
Broad inflation measures



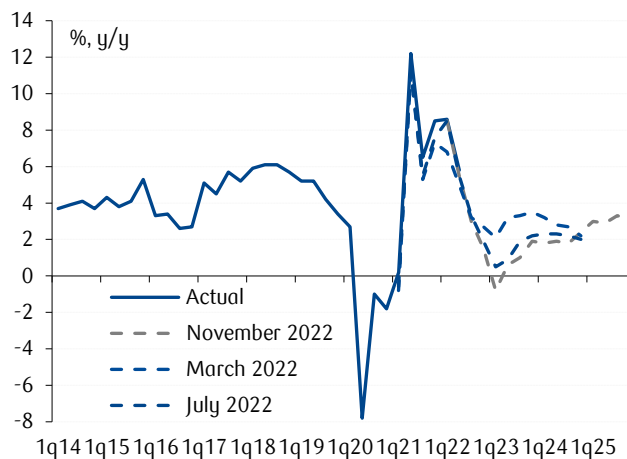
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

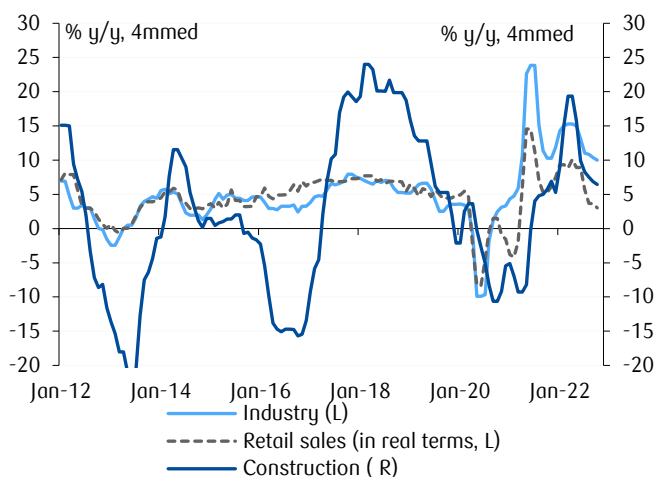


Real GDP growth – NBP projections vs. actual

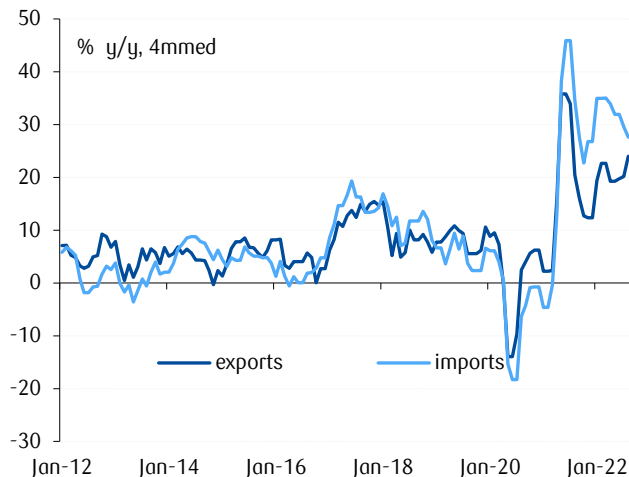


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

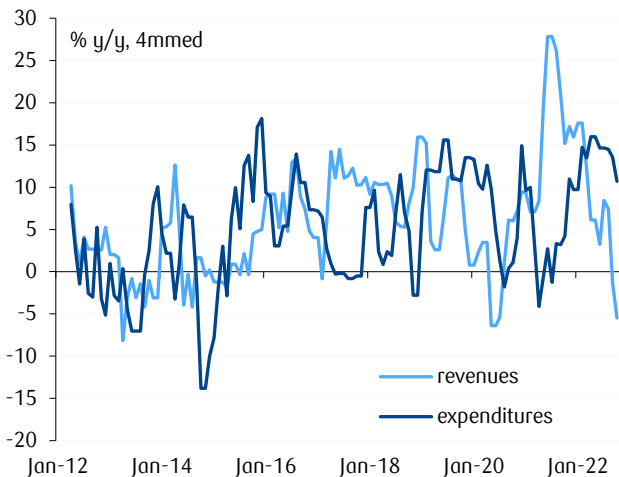
Economic activity indicators



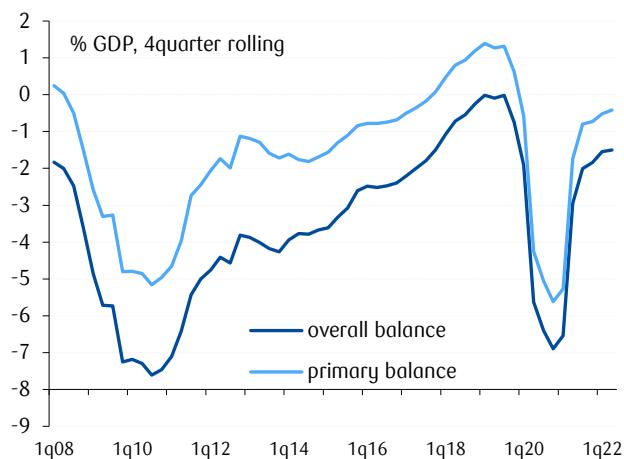
Merchandise trade (in EUR terms)



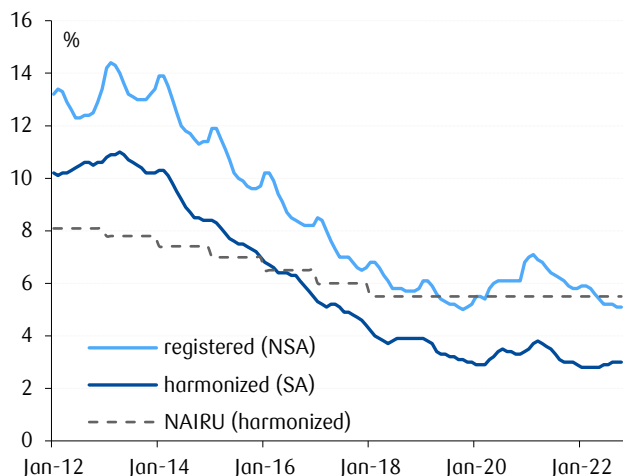
Central government revenues and expenditures*



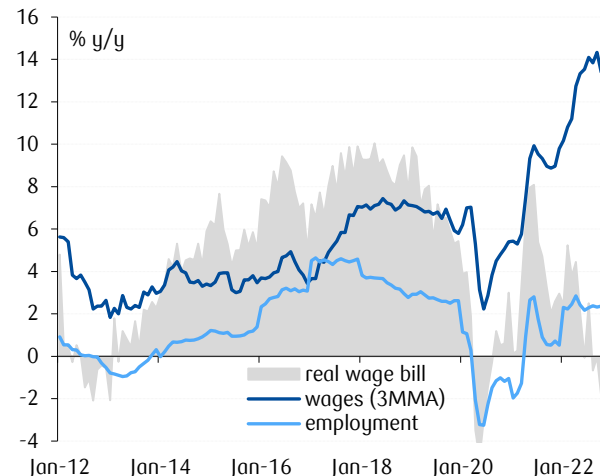
General government balance (ESA2010)



Unemployment rate

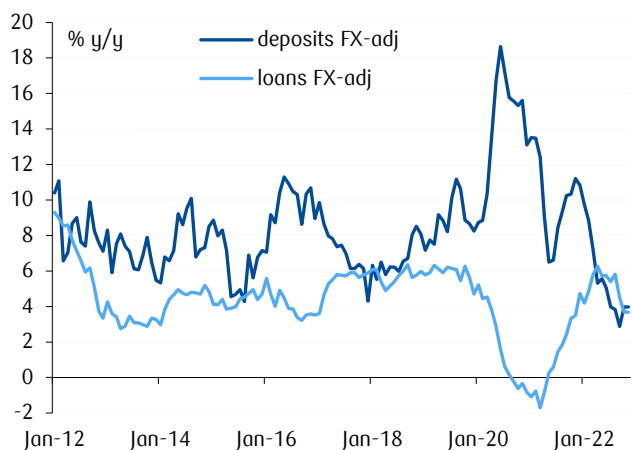


Employment and wages in the enterprise sector

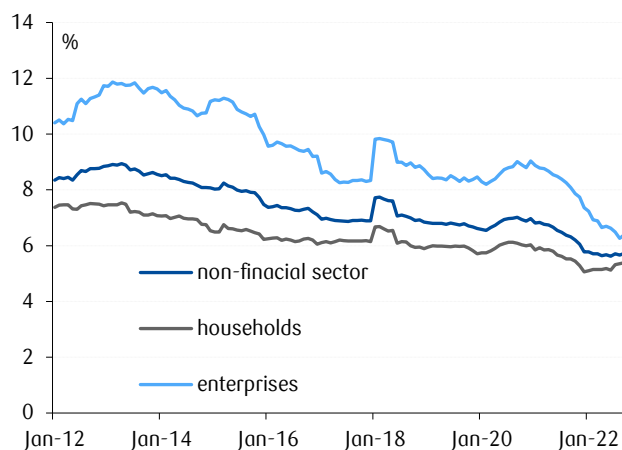


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

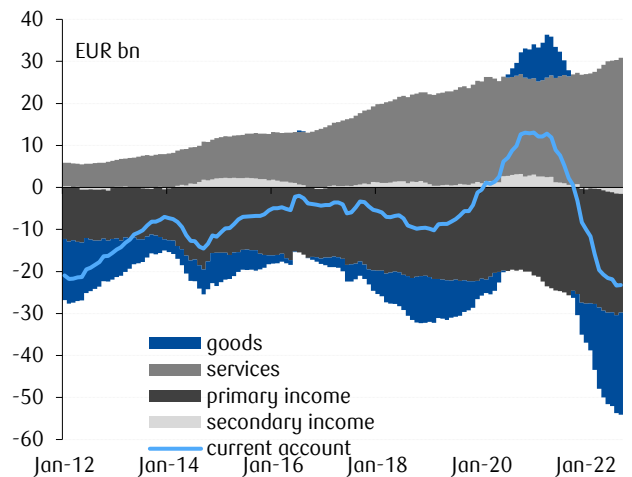
Loans and deposits



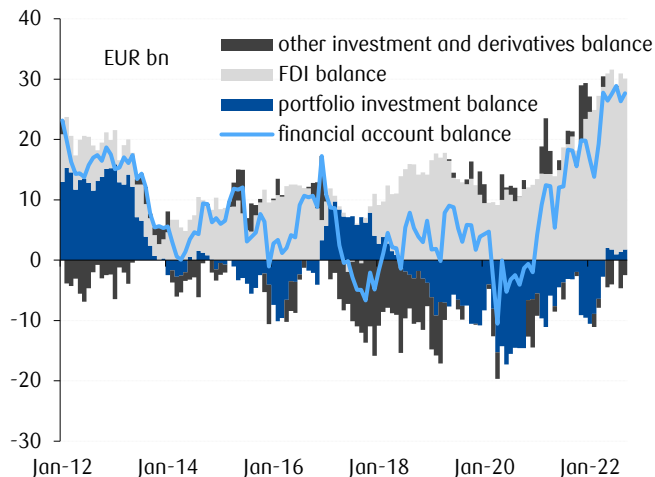
Non-performing loans (NPLs) - by sectors*



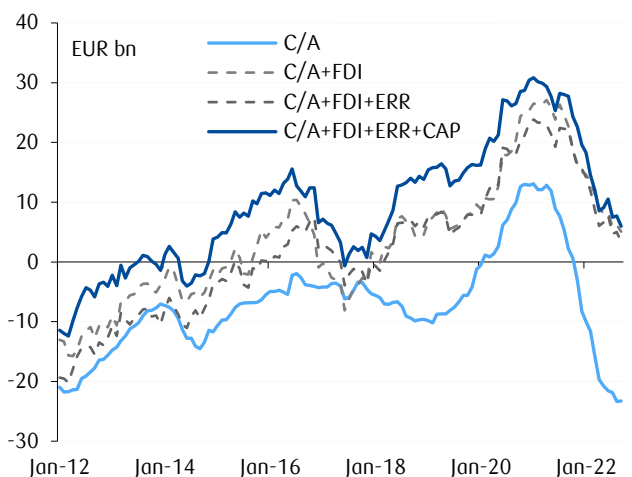
Current account balance



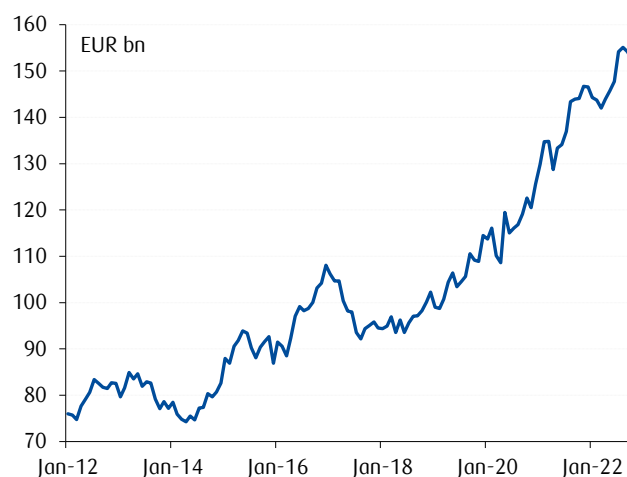
Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



Source: NBP, PKO Bank Polski. *break in series in Jan2018 due to methodological changes.

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- [A soft patch](#) (Nov 18, 2022)
- [Monetary policy dilemmas \(again\)](#) (Nov 4, 2022)
- [Is Poland crisis resilient?](#) (Oct 28, 2022)
- [Not great, not terrible](#) (Oct 21, 2022)
- [Frozen: the housing market](#) (Oct 14, 2022)
- [Is it the end or just a pause?](#) (Oct 7, 2022)
- [Wartime interventionism](#) (Sep 30, 2022)
- [Will Poland escape a technical recession?](#) (Sep 23, 2022)
- [Energy prices frozen for this winter?](#) (Sep 16, 2022)
- [Awaiting the end of rate hikes](#) (Sep 9, 2022)
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- [Costs jump, deals slow](#) (Aug 26, 2022)
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- [Inflation seems to be losing steam](#) (Aug 12, 2022)
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- [Dry loan tap has frozen the market](#) (Jun 24, 2022)
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