

CPI keeps falling down

TOP MACRO THEME(S):

- **CPI keeps falling down (p.2):** CPI inflation dropped to 14.7% y/y in April, driven by high base effect and normalization of food and energy prices. Core inflation also declined, although its momentum remains strong.
- **GDP growth rate below zero (p.3):** Output and retail sales figures for March confirmed our long-held view that GDP growth rate in 1q23 dived below zero (our estimate: -0.6% y/y) amid a sharp drop of private consumption, moderate expansion of investments and robust exports.

WHAT ELSE CAUGHT OUR EYE:

- **State budget deficit hit PLN 12bn after March** with revenues lagging behind. PIT rate reduction implemented in 2022 resulted in a sharp contraction of PIT revenues. On the other hand, a partial removal of anti-inflationary shield resulted in a boost of VAT revenues. On the expenditure side, interest payments as well as military spending started to weigh on budget results. All in all, the revenues shortfall will weigh on the overall fiscal result in 2023.
- **Monetary and banking statistics for March** confirmed our view that the impact of the recent US banking turmoil on the domestic banking sector was muted. Banking statistics reflect local macro story: the deleveraging of consumers continued in March amid a strong increase in households' deposits and falling consumer and mortgage loans.
- **Unemployment rate in March inched down to 5.4%**, as expected, while declining number of job offers (by 31.3% y/y) proves that the labour market is cooling down.

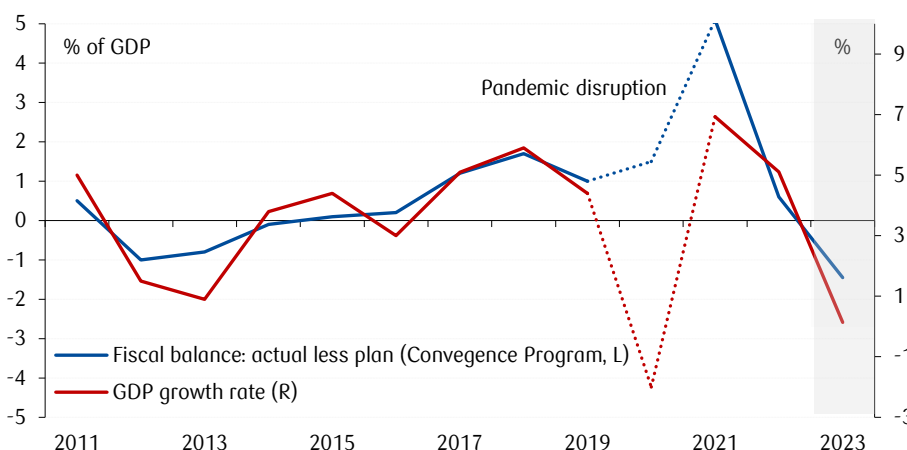
THE WEEK AHEAD:

- **Manufacturing PMI likely inched down in April** as suggested by Eurozone and German flash figures as well as domestic business surveys.

NUMBER OF THE WEEK:

- **4.7% of GDP** – fiscal deficit (in ESA terms) forecasted by the MinFin for 2023, as per the fresh Convergence Program provided to the European Commission. Given a cyclical slowdown, we think the forecast might be too optimistic (see chart of the week) and the fiscal deficit in 2023 will exceed a 5%-of-GDP mark.

CHART OF THE WEEK: Fiscal plan (as per Convergence Program) vs actuals*



Source: MinFin, GUS, PKO Bank Polski. *2023 – PKOe.

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	2022	2023
Real GDP (%)	5.1	0.1
Industrial output (%)	10.5	2.2
Unemployment rate# (%)	5.2	5.4
CPI inflation** (%)	14.4	12.6
Core inflation** (%)	9.1	9.9
Money supply M3 (%)	5.6	5.6
C/A balance (% GDP)	-3.0	-0.6
Fiscal balance (% GDP)*	-3.7	-5.4
Public debt (% GDP)*	49.1	49.9
NBP reference rate### (%)	6.75	6.50
EURPLN###	4.69	4.59

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

CPI inflation keeps falling down

- CPI inflation decline to 14.7% y/y in April was driven by high base effect and normalization of food and energy prices. Core inflation also declined, but its momentum remains strong.
- Inflation continues its downward march, although the high momentum of core inflation may still be a concern.

CPI inflation dropped to 14.7% y/y (PKO: 14.8% y/y, cons: 15.0% y/y) in April from 16.1% y/y in March. The decline was driven by high base effect and normalization of food and energy prices. Core inflation also declined, but its momentum remains strong.

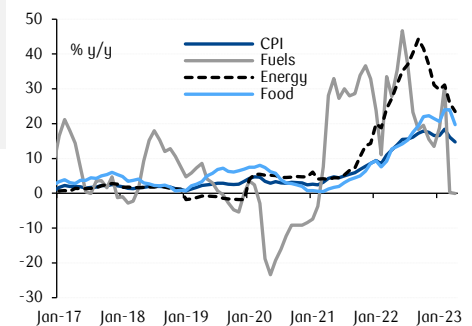
Food prices in April rose by 0.5% m/m and returned to the 'seasonal pattern' after many months of above-average increases. Combined with the high statistical base effect (in Apr'22 food prices rose by a record 4.1% m/m), it has dragged down the annual food price growth to 19.7% y/y from 24.0% y/y in March and February. Taking into account the development of food prices in the global markets (measured by FAO index), we assume that the coming months will show further disinflation in this category and at the end of the year food inflation will decrease to approx. 10% y/y.

Fuel prices continued falling and declined by 1.2% m/m in April. The annual dynamics was negative for the first time since Feb'21. Should the fuel prices stabilize at the current level, the negative y/y dynamics will not only be maintained, but will even deepen in the coming months. Energy prices in April fell by 0.3% m/m after a fall of 0.6% m/m in March, likely due to further decline in coal prices. The annual growth rate decreased to 23.5% y/y from 26% y/y in the previous month.

Core inflation (CPI excluding food and energy) fell, according to our estimate, to 12.1% y/y from 12.3% y/y a month earlier. This is the first decline in core inflation since June 2021 and it resulted primarily from statistical effects. The momentum of core inflation remains high – monthly changes remain at around 1%, which confirms the high inertia of price processes in core categories. We believe that weaker consumer demand will make it more difficult for retailers to pass on recent increases in production costs to finished goods. Core inflation will eventually slow down, but with some delay.

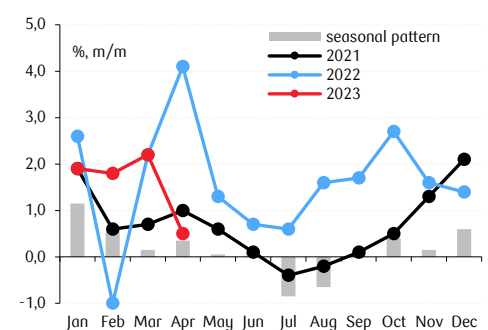
Inflation continues its downward march, although the high momentum of core inflation may still be a concern. In our opinion, the data for April will not affect the short-term outlook for domestic monetary policy - we assume that interest rates may be lowered at the end of the year, but currently, in the face of still hawkish monetary policy abroad and persistence of core inflation, NBP communication in this area will be very careful.

CPI and main components



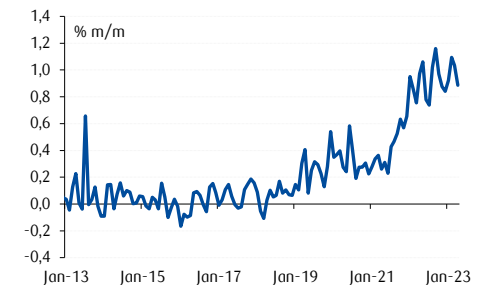
Source: GUS, PKO Bank Polski.

Food prices



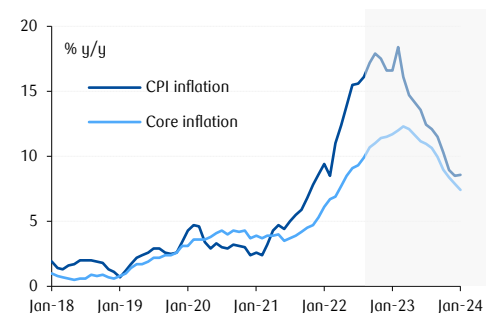
Source: GUS, PKO Bank Polski.

The momentum of core inflation



Source: GUS, PKO Bank Polski.

CPI and core inflation (incl. PKO forecast)



Source: GUS, PKO Bank Polski

GDP growth rate below zero

- Output and retail sales for March confirmed our long held view that GDP growth rate in 1q23 dived below zero (our estimate: -0.6% y/y) amid a sharp drop of private consumption, moderate expansion of investments and robust exports.

The key indicators of economic activity confirmed that GDP growth rate in 1q23 dived below zero - our estimate based on monthly data points at a contraction by 0.6% y/y. Industrial production in March decreased by 2.9% y/y (PKO: -1.5%; cons.: -1.9%). Construction output fell by 1.5% y/y in March (PKO: -2.0%; cons.: 0.9%). Retail sales plunged in March by 7.3% y/y (PKO: -8.9%, cons: -5.7%). All in all, industry and retail sales finished 1q23 in the red (see margin table).

Industrial production in March was affected by plunging output in energy, consumer durables as well as intermediate goods. On the other hand, capital goods' output expanded at a healthy 20%ish rate reflecting recovery in the export-oriented automotive sector. The structure of production confirms the recession in the consumer sector and a strong recovery in the export sector.

Construction output in March was dragged down by the construction of buildings and specialized works (the aftermath of interest rate hikes, which hampered the demand for apartments) amid rising civil engineering output (probably an effect of the finalization of projects in the final year of the previous EU perspective). The leading indicators for the housing market (building permits and housing starts) rebounded in March from the bottom, signaling that the period of slowdown here may be coming to an end.

Real retail sales decreased by 7.3% y/y in March, the most since May 2020. The annual increase was achieved only in clothing sales (+ 1.7% y/y) and other sales in non-specialized stores (on our estimates, as data encompass the largest retailer in Poland and are hidden under statistical confidentiality rule). Fuel sales fell the most (-20.7% y/y), followed by sales of newspapers and books (-17.8% y/y). Negative growth rates were also recorded in the sale of necessities, such as food (-4.6% y/y) or pharmaceuticals and cosmetics (-1.8% y/y), which were previously positively influenced by the expenses of Ukrainians staying in Poland. This suggests that the decline in the real income of the population has changed the structure of spending - consumers resign from purchases that are not considered necessary.

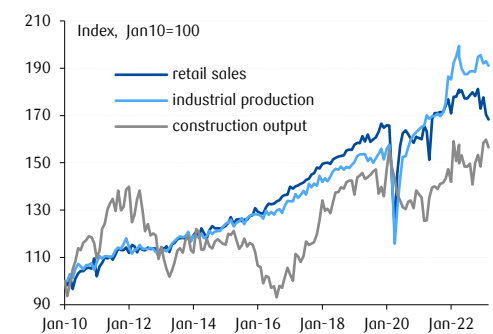
Data for March confirm that the consumer sector is in a deep recession (see margin chart), which according to our estimates may last up to 4 quarters in total (4q22-3q23). In our opinion, an improvement in consumption growth rate is possible in the second half of the year, along with the recovery of real wage growth rate. The specific nature of the current slowdown, in which we do not think a strong increase in unemployment is likely, indicates a large potential for a rapid recovery in consumption in the medium term.

Key macro indicators for 1q23

% , y/y	4q22	1q23
Industry	4.6	-0.4
Construction	2.3	2.4
Retail sales	0.1	-3.5
Wholesale trade*	34.6	-9.3
Wages^	12.0	13.3
Employment^	2.9	0.9
Unemployment rate#	5.2	5.4
Consumer loans (FX adj.)	-3.3	-2.7
Mortgage (PLN denominated)	-1.6	-3.5
CPI inflation	17.3	17.0

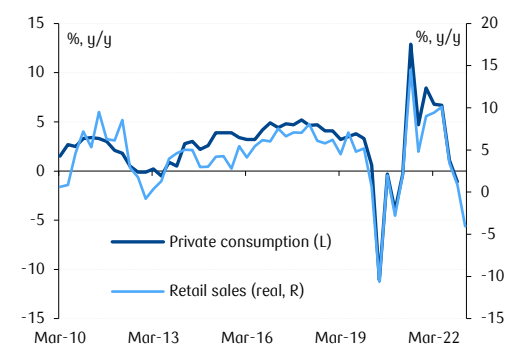
Source: GUS, PKO Bank Polski. *in nominal terms; ^enterprises; #end of period.

Real activity indicators



Source: GUS, PKO Bank Polski.

Consumption vs sales



Source: GUS, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 1 May						
USA: Manufacturing PMI (Apr, final)	14:45	pts.	49.2	50.4	--	--
USA: ISM Manufacturing (Apr)	15:00	pts.	46.3	46.6	--	--
Tuesday, 2 May						
POL: Manufacturing PMI (Apr)	8:00	pts.	48.3	47.0	47.6	PMI inched down as suggested by other foreign and domestic business sentiment surveys.
GER: Manufacturing PMI (Apr, final)	8:55	pts.	44.7	44.0	--	--
EUR: Manufacturing PMI (Apr, final)	9:00	pts.	47.3	45.5	--	--
EUR: M3 money supply (Mar)	9:00	% y/y	2.9	--	--	--
EUR: CPI inflation (Apr)	10:00	% y/y	6.9	7.1	--	--
EUR: Core inflation (Apr, flash)	10:00	% y/y	5.7	--	--	--
USA: JOLTS Report (Mar)	15:00	thous.	9.931	--	--	--
USA: Factory orders (Mar)	15:00	% m/m	-0.7	0.7	--	--
USA: Durable goods orders (Mar, final)	15:00	% m/m	-1.2	3.2	--	--
Wednesday, 3 May						
USA: ADP National Employment (Apr)	13:15	thous.	145	150	--	--
CZE: Central bank meeting	13:30	%	7.00	7.00	7.00	--
USA: Fed meeting	19:00	%	5.00	5.25	5.25	--
Thursday, 4 May						
CHN: Manufacturing PMI (Apr)	2:45	pts.	50.0	50.3	--	--
GER: Exports (Mar)	7:00	% m/m	4.0	--	--	--
GER: Imports (Mar)	7:00	% m/m	4.6	--	--	--
GER: Services PMI (Apr, final)	8:55	pts.	53.7	55.7	--	--
NOR: Norges Bank meeting	9:00	%	3.00	3.25	3.25	--
EUR: Services PMI (Apr, final)	9:00	pts.	55.0	56.6	--	--
EUR: PPI inflation (Mar)	10:00	% y/y	13.2	--	--	--
EUR: ECB Refinancing Rate	13:15	%	3.50	4.00	3.75	--
EUR: EBC deposit rate	13:15	%	3.00	3.50	3.25	--
USA: Trade balance (Mar)	13:30	bn USD	-70.5	-70.3	--	--
USA: Initial Jobless Claims	13:30	thous.	230	--	--	--
Friday, 5 May						
GER: Factory orders (Mar)	7:00	% m/m	4.8	--	--	--
GER: Factory orders (Mar)	7:00	% y/y	-5.7	--	--	--
EUR: Retail sales (Mar)	10:00	% y/y	-3.0	--	--	--
USA: Non-Farm Payrolls (Apr)	13:30	thous.	236	180	--	--
USA: Unemployment Rate (Apr)	13:30	%	3.5	3.6	--	--
USA: Average Earnings (Apr)	13:30	y/y	4.2	4.2	--	--

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	"Poland's average annual inflation in 2023 "will not be much lower" than in 2022" (24.04.2023, Gazeta Wyborcza, PAP)
L. Kotecki	4.8	"Current rates, in line with the NBP projection, do not guarantee returning to the inflation target (...) From the point of view of the monetary policy realization, they are still inadequate." (25.04.2023, PAP)
P. Litwiniuk	3.7	"If inflation falls faster than demonstrated in the projection, I will be probably saying that there is a justification for maintaining the [PAP: current] parameters of the monetary policy," (22.03.2023, gazeta.pl, PAP)
H. Wnorowski	2.7	"If economic situation and the level of inflation pressure turns out different from what we expect now, then the council may adjust the monetary policy, including interest rate levels (...) But according to what we know now, nothing indicates that a change in interest rates will be necessary in the near future." (22.04.2023, wroclawskiefakty.pl, PAP)
A. Glapinski	2.4	"We have not completed the cycle of interest rate hikes, we are prepared for any situation. (...) If everything goes on as we predict, then (...) there will be no increases, and at some point there will be a rate cut. When will there be a cut? We will monitor the economy from month to month. A reduction may come when it is absolutely certain that inflation is falling quickly to the target. At the moment, it's too early to say that inflation is falling rapidly, because this slide off the "plateau" has just begun." (6.04.2023, NBP press conf., PAP, PKO transl.)
C. Kochalski	2.4	"In light of the current projection and incoming data and forecasts, the topic of interest-rate cuts was simply not taken up or discussed by anyone. There were no grounds (to do that) in relation to the ongoing economic and inflationary processes." (14.04.2023, Bloomberg).
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	"Considerations about interest rate cuts are in my opinion premature (...) The weakening of global economic conditions will lead to lowering of economic growth rate in Poland, while monetary policy tightening by major central banks will limit inflation, both globally and in Poland (...) However, it is not the moment to formulate expectations as to whether the next MPC move should be a hike or a cut of interest rates." (20.01.2023, PAP)"
G. Maslowska	2.1	"One should wait with an answer to the question about a possibility of interest rate cuts at least until the moment when inflation falls to a single-digit level, which should take place in early autumn, and when we are sure that its declining trend is lasting" (20.02.2023, PAP)
I. Dabrowski	1.9	" We are ready to raise rates if need be (...) For now, we do not see grounds for this. (...) The rates are impacting the economy in the right way " (24.04.2023, Parkiet TV, PAP)

*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.

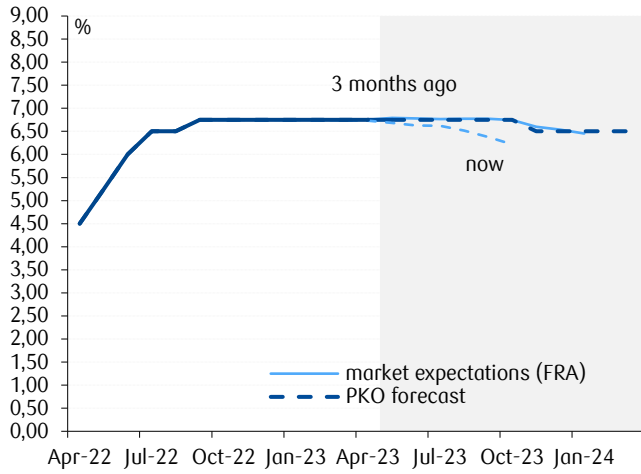
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	27-Apr	27-May	27-Jun	27-Jul	27-Aug	27-Sep	27-Oct	27-Nov	27-Dec	27-Jan
WIBOR 3M/FRA†	6.90	6.89	6.88	6.85	6.77	6.72	6.65	6.50	6.39	6.31
implied change (b. p.)		-0.01	-0.02	-0.06	-0.13	-0.18	-0.26	-0.40	-0.51	-0.60
MPC Meeting	5-Apr	10-May	6-Jun	6-Jul	-	6-Sep	4-Oct	8-Nov	6-Dec	-
PKO BP forecast*	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.50	6.50
market pricing^		6.74	6.73	6.70	6.62	6.57	6.50	6.45	6.39	6.31

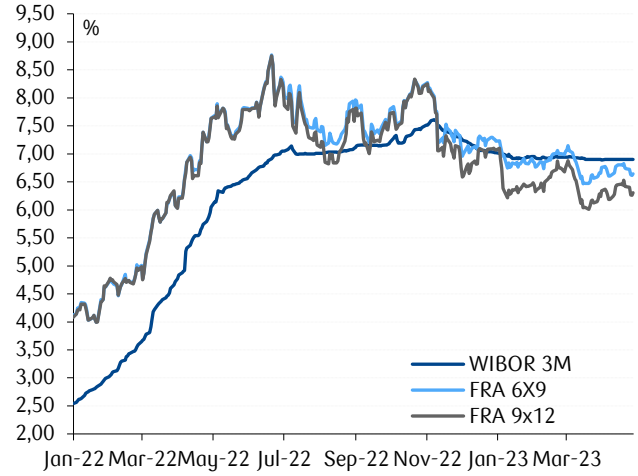
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

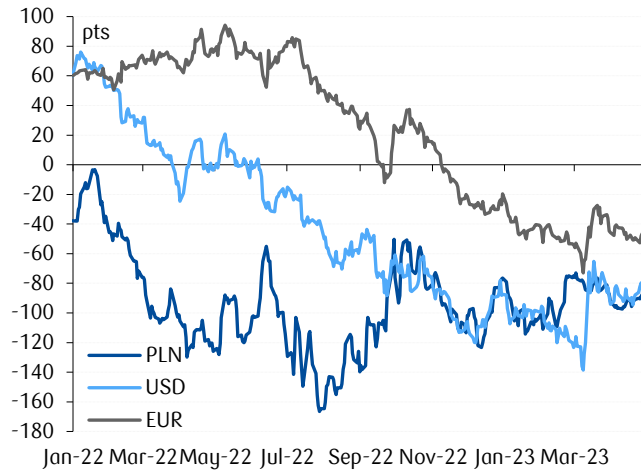
NBP policy rate: PKO BP forecast vs. market expectations



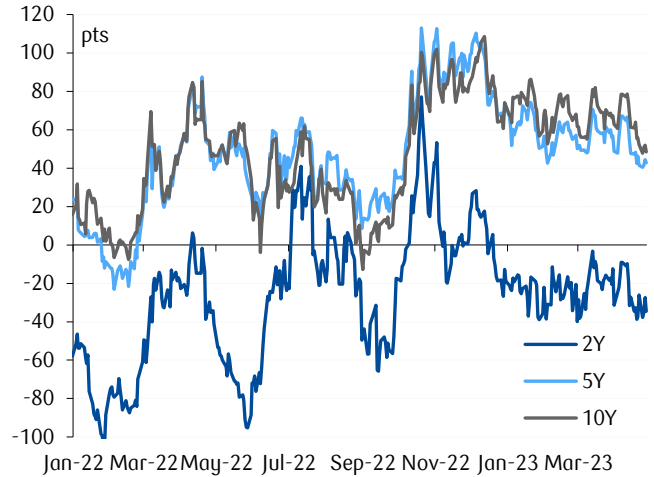
Short-term PLN interest rates



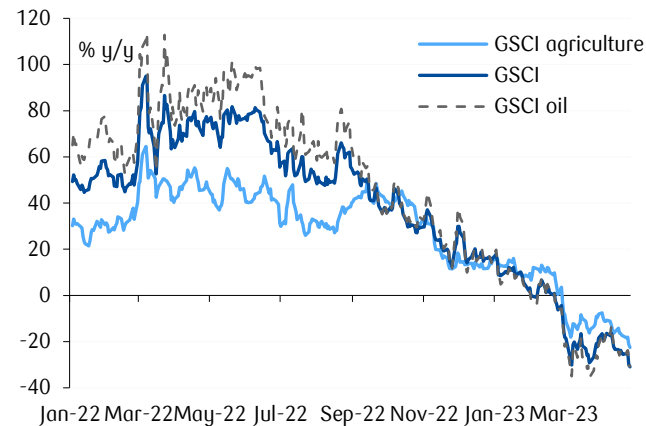
Slope of the swap curve (spread 10Y-2Y)*



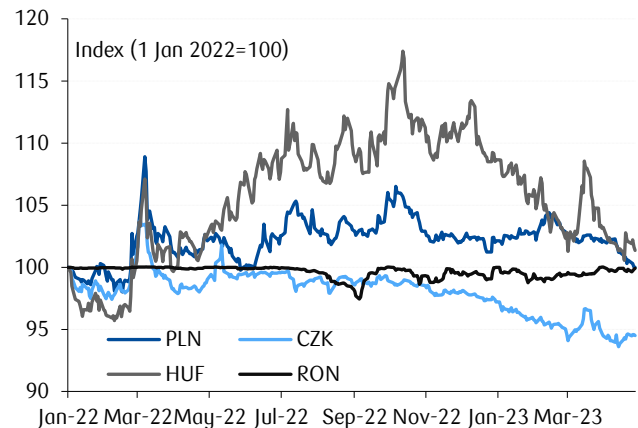
PLN asset swap spread



Global commodity prices (in PLN)

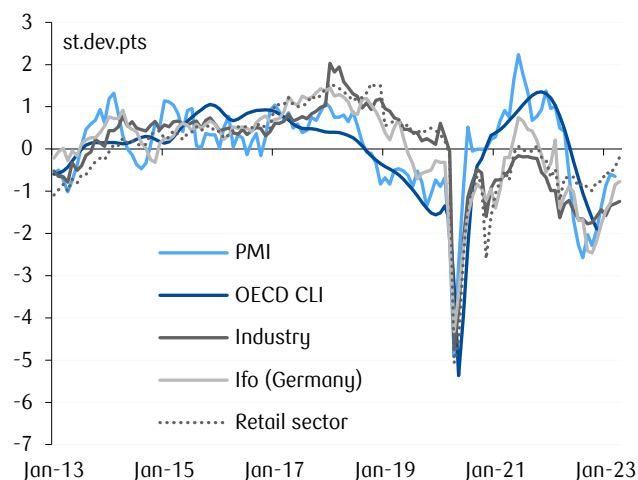


Selected CEE exchange rates against the EUR

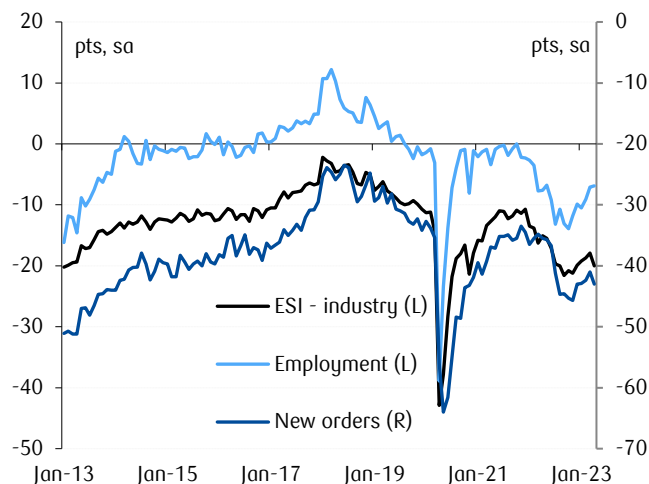


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

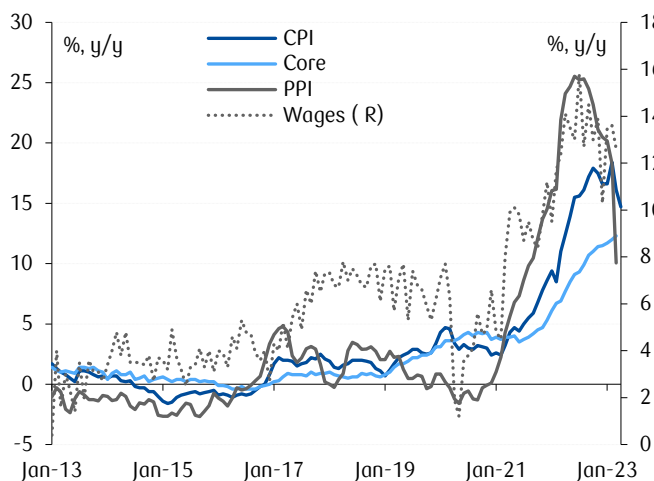
Economic sentiment indicators



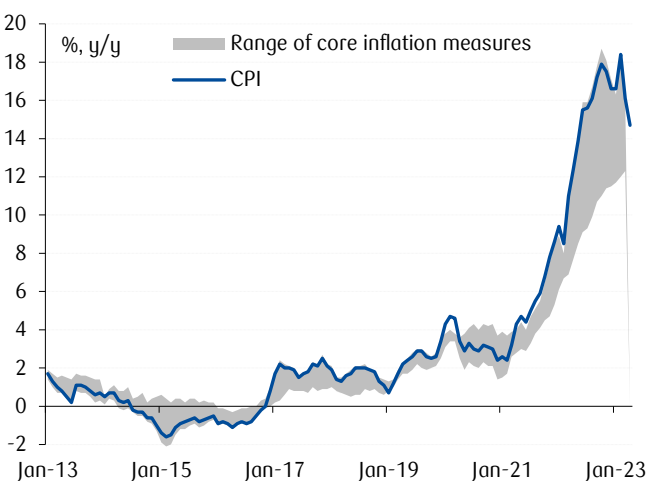
Poland ESI for industry and its components



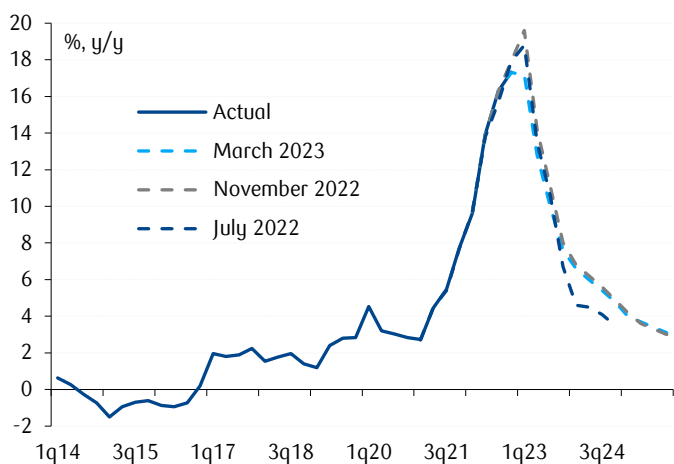
Broad inflation measures



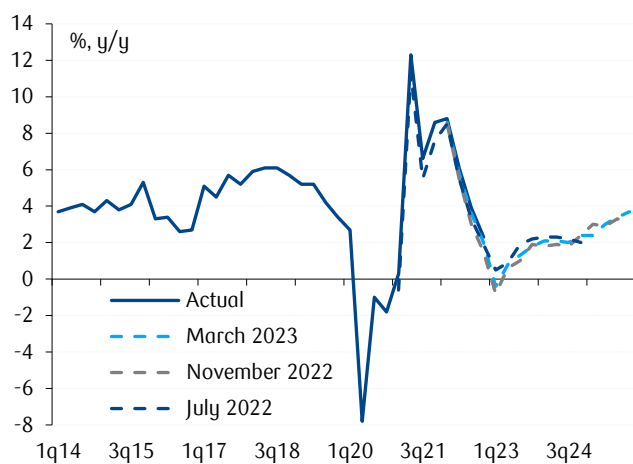
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

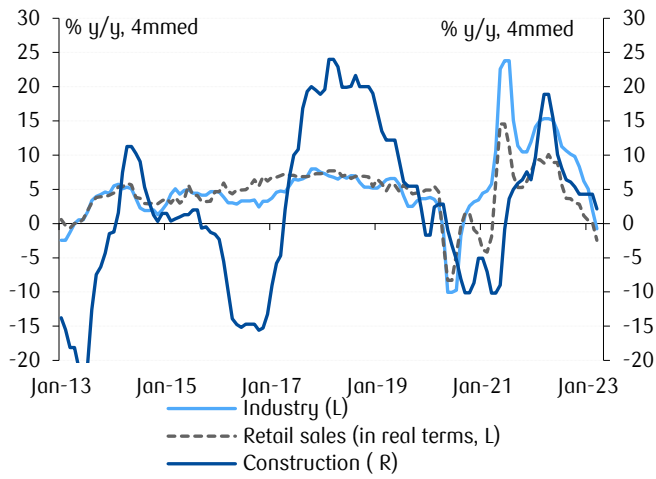


Real GDP growth - NBP projections vs. actual

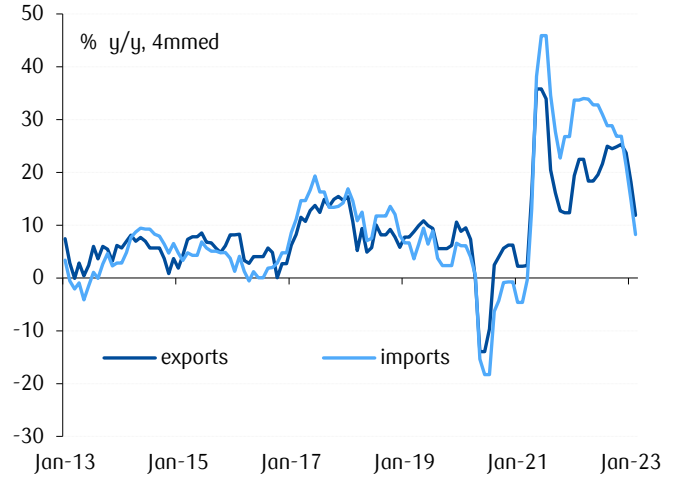


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

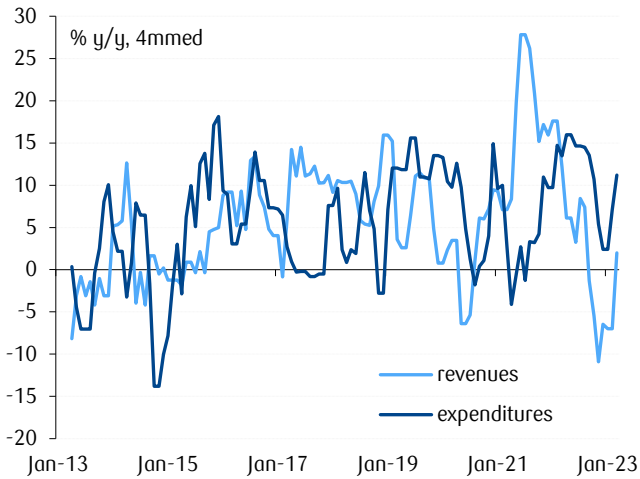
Economic activity indicators



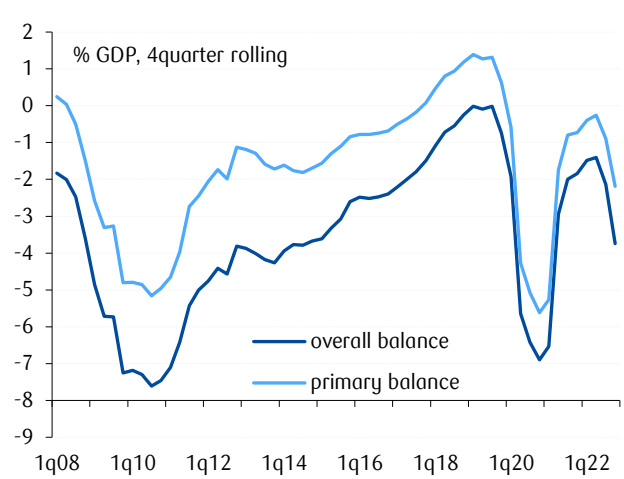
Merchandise trade (in EUR terms)



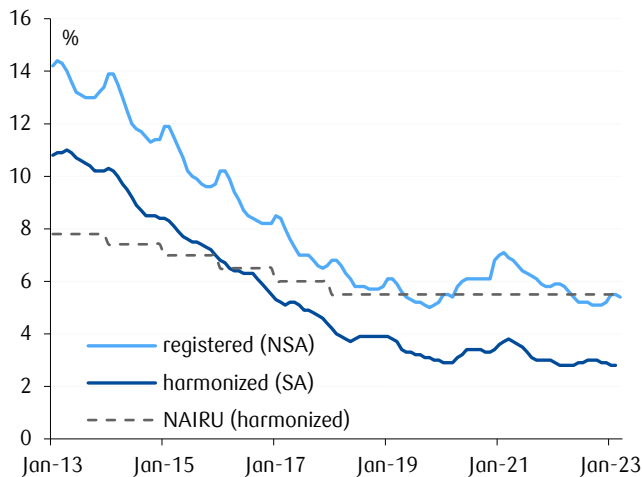
Central government revenues and expenditures*



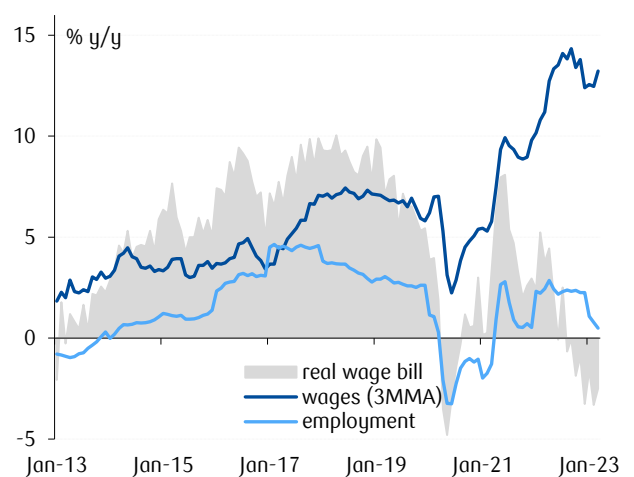
General government balance (ESA2010)



Unemployment rate

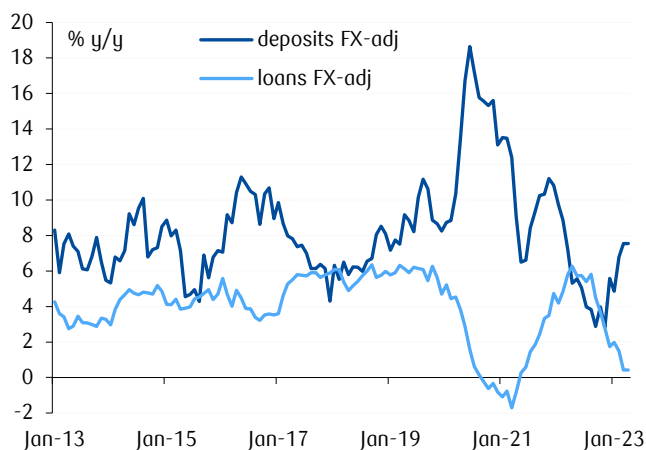


Employment and wages in the enterprise sector

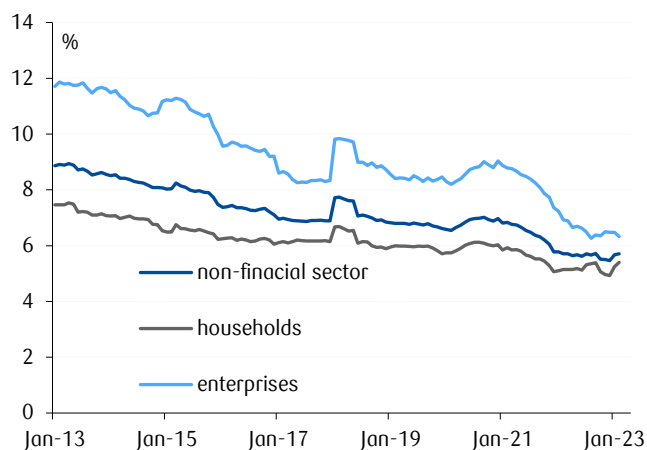


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

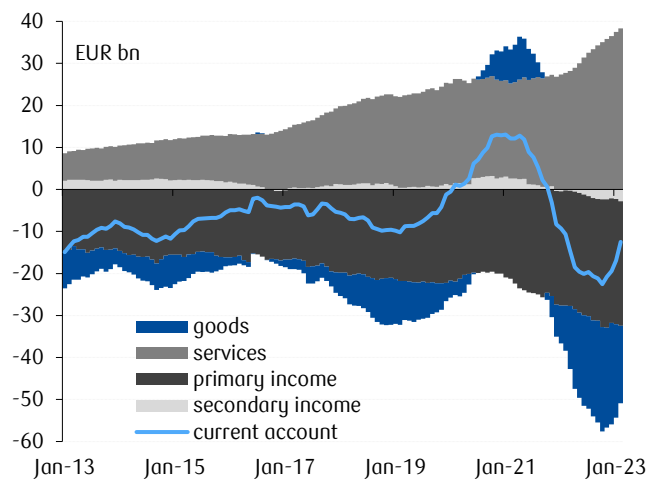
Loans and deposits



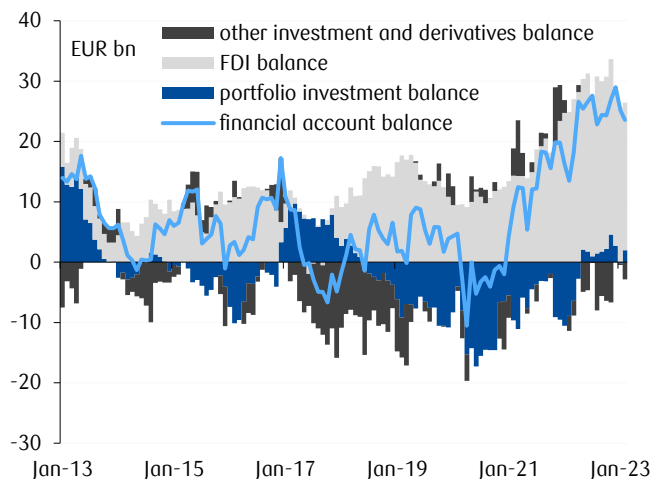
Non-performing loans (NPLs) - by sectors*



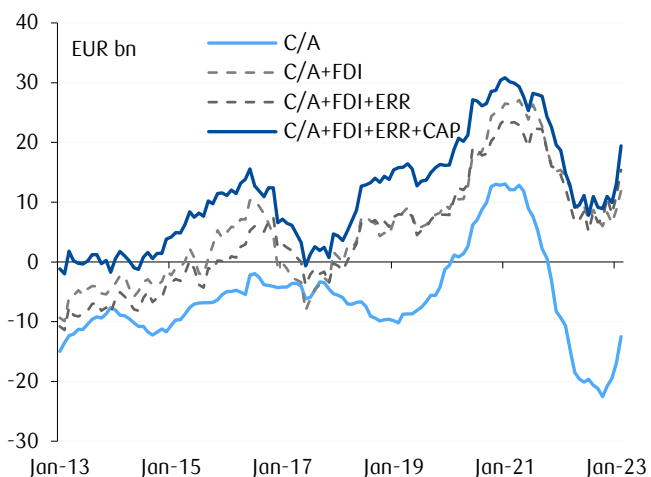
Current account balance



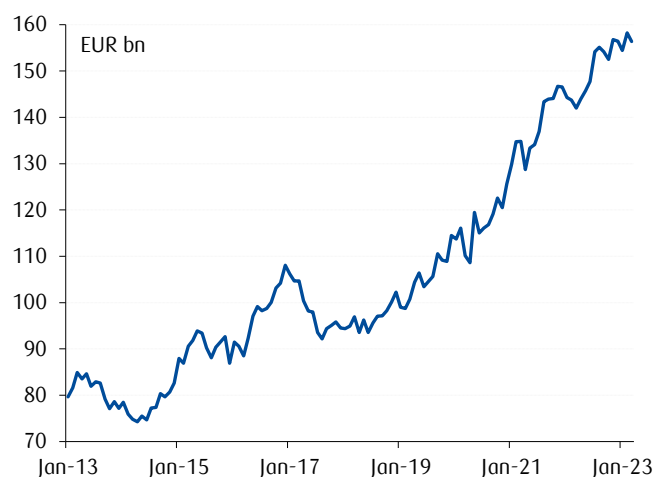
Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



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

Previous issues of PKO Macro Weekly:

- [Fiscal glass: half full or half empty?](#) (Apr 21, 2023)
- [Polish MPC still in a pause mode](#) (Apr 14, 2023)
- [Let the disinflation begin](#) (Mar 31, 2023)
- [Corporate profits dwindle, margins narrow](#) (Mar 24, 2023)
- [Inflation never ceases to surprise](#) (Mar 17, 2023)
- [Spring is coming after all](#) (Mar 10 2023)
- [Consumers under pressure](#) (Mar 3 2023)
- [Bumpy road ahead](#) (Feb 24 2023)
- [Inflation peak not as scary as feared](#) (Feb 17 2023)
- [Nothing to see here](#) (Feb 10, 2023)
- [Growth less inflation-prone](#) (Feb 3, 2023)
- [GDP growth in 4q22 heading south](#) (Jan 27, 2023)
- [This time is different, again](#) (Jan 20, 2023)
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