

Not great, not terrible

TOP MACRO THEME(S):

- **Not great, not terrible (p. 2):** Monthly economic activity indicators for September were mixed versus expectations, but on average in 3q22 deteriorated as compared to 2q22, implying further GDP growth slowdown.

WHAT ELSE CAUGHT OUR EYE:

- **Consumer sentiment deteriorated in October.** The assessment of economic situation in the past 12 months is now the worst in the survey's history (since 2003). For the second month in a row unemployment fears increased. Over 50% of respondents indicate that it is a bad time for major spending.
- The NBP Economic Survey shows that **despite a significant deterioration in the business climate measures, the real decline in economic activity has been so far relatively small.** In 3q22 companies report historically high uncertainty and forecasted demand indicators recorded deep declines.
- **Core inflation (CPI excl. food and energy) grew to 10.7% y/y in September** from 9.9% in August. It remains heavily influenced by the second-round effects as companies are able to easily pass higher costs on consumers. **PPI inflation in September fell for the first time since 2020** (on lower oil and commodity prices), to 24.6% y/y vs. 25.5% y/y in August.
- **The central budget surplus remained roughly stable after Sep., at PLN 27.5bn,** with some signs of further weakening in VAT revenues but with stable PIT inflows. Spending was limited, with a lower subsidy to the Social Insurance Fund. Its Board (ZUS) resigned from a PLN 4bn budget subsidy, as the coverage ratio is record high 86.4%.
- **The general govt. deficit (4q cumm., ESA) remained at 1.5% GDP after 2q22, while public debt declined to 51.6% GDP,** despite major unexpected spending on refugees and military equipment.

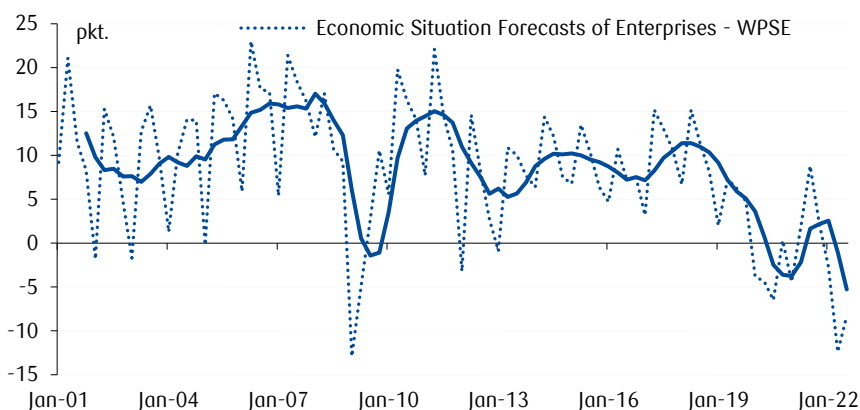
THE WEEK AHEAD:

- Final September unemployment rate could be lower than the early estimate (4.8%), as a periodic revision likely pushed the number of employed up.
- The growth of M3 money supply has likely stabilized in October, but the decline of a narrower measure M1 has likely continued.

NUMBER OF THE WEEK:

- **9.06%** – 10Y government bond yield (intraday max), the highest since 2001.

Chart of the week – Record pessimism among large corporate



Source: NBP Economic Survey, PKO Bank Polski.

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	2021	2022 _†
Real GDP (%)	6.8	4.3
Industrial output (%)	15.6	10.4
Unemployment rate [#] (%)	5.4	4.9
CPI inflation ^{**} (%)	5.1	14.1
Core inflation ^{**} (%)	4.1	8.8
Money supply M3 (%)	8.9	5.8
C/A balance (% GDP)	-1.4	-4.4
Fiscal balance (% GDP)*	-1.9	-2.2
Public debt (% GDP)*	53.8	50.8
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

Not great, not terrible

- Monthly economic activity indicators for September were mixed versus expectations, but on average in 3q22 deteriorated as compared to 2q22, implying further GDP growth slowdown.

Most high-frequency economic activity indicators deteriorated in 3q22 vs. 2q22 suggesting weaker GDP growth rate. We estimate that headline real GDP growth rate continued to decline (to 3.3% y/y in 3q22 from 5.5% y/y in 2q22). Indeed, most high-frequency economic activity indicators fell behind in the third quarter:

- **industrial output** growth rate softened to 9.3% y/y in 3q22 from 11.3% y/y in 2q22,
- **construction activity** growth was reduced to 3.5% y/y in 3q22 (vs. 9.3% y/y in 2q22),
- **real retail sales** growth rate slid to 3.4% y/y in 3q22 (vs. 9.0% y/y in 2q22),
- **wholesale trade** growth rate (in nominal terms) stood elevated, expanding 35.4% y/y in Jul-Aug, following an expansion by 39.2% y/y in 2q22,
- **labour market** indicators improved a tad, with unemployment rate going down and nominal wage bill increasing by 16.7% y/y in 3q (vs. 16.0% y/y in 2q22) – still not sufficient to outweigh inflation,
- last but not least, **consumer and mortgage lending** business hit a speed bump (see margin table).

Weaker mortgage and construction works growth rates reflect the most pronounced tightening of lending conditions in the whole UE accompanied by shortage of workers (conscript in Ukraine). Wholesale trade, strongly influenced by exports performance as well as industry still receives a boost from weaker PLN as well as softening in global supply chains (with automotive taking the lead in September).

All in all, we estimate that GDP growth slowed down to 3.3%/y/y in 3q22 (from 5.5%/y/y in 2q22). Noteworthy, uncertainty of quarterly GDP estimates has arguably increased following the recent rapid inventory build-up, reducing the predictive power of monthly economic activity data commonly used to approximate quarterly GDP growth (see margin chart). Our proxy overstated GDP growth in 1q and 2q22 (especially in 2q by almost 3 pp).

This increases potential for GDP surprises (NB. we have corrected our proxy results when formulating 3q22 forecast to take into account deepening negative contribution of inventories to GDP growth in 3q22).

GDP breakdown is likely to reveal a broad-based domestic demand slowdown, with consumption taking a beating and mild investments growth while we see recovering exports:

- Consumption most likely hit a speed bump (PKOe: 1.6% y/y in 3q vs. 6.4% y/y in 2q) on labour market that can't keep up pace with inflation,
- Investment growth also should have moderated (PKO: 4.2% y/y in 3q vs. 7.1% y/y in 2q),
- External demand most likely received a boost, as evident from very strong export-oriented performance of industries in September.

Selected high-frequency economic activity indicators (% y/y)

% y/y	2q22	3q22
Industry	11.3	9.3
Construction	9.3	3.5
Retail sales	9.0	3.4
Wholesale trade*	39.2	35.4**
Wages^	13.7	14.3
Employment^	2.3	2.4
Unemployment rate#	4.9	4.8**
Consumer loans (FX adj.)	-0.7	-2.1
Mortgage (PLN denominated)	7.1	3.9

Source: GUS, PKO Bank Polski.

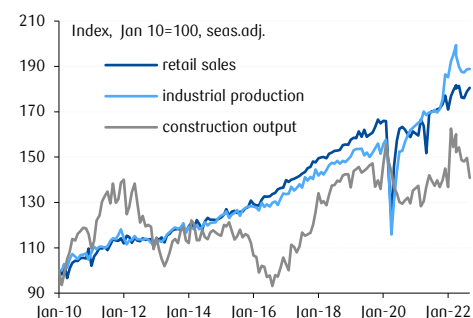
* in nominal terms,

^enterprise sector,

#pp, y/y

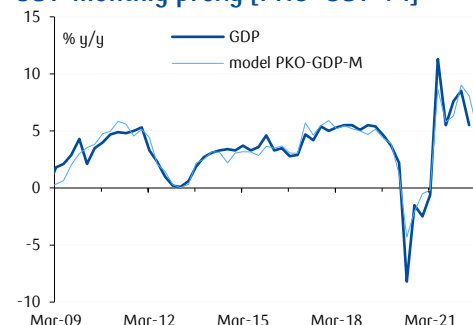
**Latest data - Aug.

High-frequency activity indicators in 3q



Source: GUS, PKO Bank Polski.

GDP monthly proxy [PKO-GDP-M]



Source: NBP, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 24 October						
GER: Manufacturing PMI (Oct, flash)	8:30	pts.	47.8	--	--	--
GER: Services PMI (Oct, flash)	8:30	pts.	45	--	--	--
EUR: Manufacturing PMI (Oct, flash)	9:00	pts.	48.4	--	--	--
EUR: Services PMI (Oct, flash)	9:00	pts.	48.8	--	--	--
POL: Money Supply M3 (Sep)	13:00	% y/y	7.4	7.4	7.3	M3 dynamics has likely stabilized, with a continued decline of the narrower measure (M1).
USA: Manufacturing PMI (Oct, flash)	14:45	pts.	52	--	--	--
Tuesday, 25 October						
POL: Unemployment Rate (Sep)	9:00	%	4.8	4.8	4.7	The final reading for September could be lower than MinLab estimate, as the cyclical revision will likely push the number of employed persons up.
GER: Ifo Business Climate Index (Oct)	9:00	pts.	84.3	--	--	--
HUN: MNB meeting (Oct)	13:00	%	13	--	--	--
USA: S&P CoreLogic CS 20-City (Aug)	14:00	% y/y	16.06	14	--	--
USA: Consumer confidence (Oct)	15:00	pts.	108	105	--	--
Wednesday, 26 October						
EUR: M3 money supply (Sep)	9:00	% y/y	6.1	--	--	--
USA: Trade Balance (Sep)	13:30	--	--	--	--	--
USA: New home sales (Sep)	15:00	--	--	--	--	--
Thursday, 27 October						
EUR: ECB Refinancing Rate (Oct)	13:15	%	1.25	2.00	2.00	--
EUR: EBC deposit rate (Oct)	13:15	%	0.75	1.50	1.50	--
USA: GDP growth (3q)	13:30	%q/q saar	-0.6	2.2	--	--
USA: Durable goods orders (Sep, flash)	13:30	% m/m	-0.2	0.6	--	--
USA: Personal consumption (3q)	13:30	%q/q saar	2	0.8	--	--
USA: Initial Jobless Claims (Oct)	13:30	--	--	--	--	--
GER: Retail sales (Sep)	10:20	% y/y	-1.7	--	--	--
Friday, 28 October						
GER: GDP growth (3q)	9:00	% y/y	1.8	--	--	--
EUR: Economic Sentiment Indicator (Oct)	10:00	pts.	93.7	--	--	--
EUR: Consumer Confidence (Oct, final)	10:00	--	--	--	--	--
GER: CPI inflation (Oct, flash)	13:00	% y/y	10	--	--	--
GER: HICP inflation (Oct, flash)	13:00	% y/y	10.9	--	--	--
USA: Personal Income (Sep)	13:30	% m/m	0.3	0.4	--	--
USA: Personal spending (Sep)	13:30	% m/m	0.4	0.4	--	--
USA: PCE Deflator (Sep)	13:30	% y/y	6.2	6.3	--	--
USA: Core PCE inflation (Sep)	13:30	% y/y	4.9	5.2	--	--
USA: University of Michigan sentiment (Oct, final)	15:00	pts.	59.8	59.7	--	--

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	"Inflation expectations in Poland are very high and we have a very negative real interest rate ... there is no doubt that we should tighten monetary policy both verbally and by means of the interest rate. (...) if September data brought no negative surprises and a November central bank projection was in line with expectations, a firm hike - even by 100 basis points - and a change in communication would be needed to restore the effectiveness of monetary policy". (18.10.2022, ISB, Reuters)
L. Kotecki	4.8	"It is hard to imagine that in a situation of February inflation reaching 20%, as this is what I forecast unfortunately, rates will be at a level of 6.75%" (10.10.2022, Polsat News, PAP)
P. Litwiniuk	3.7	"As long as core inflation is rising, as long as the situation on the labor market is good, as long as the Polish economy and its participants continue to surprise with their activity, one has to take actions aimed at monetary tightening (...) Whether this should take place via interest rate hikes or via using other tools which are at the disposal of the [PAP: NBP] management board and not of the MPC is only a concern in the future" (10.10.2022, TOK FM, PAP)
H. Wnorowski	2.7	"The Monetary Policy Council and the National Bank of Poland are counting on the inflation peak being just around the corner, and that we are most certainly very close to it, and that it should only be better." (10.10.2022, PAP, local TV station)
A. Glapinski	2.4	"It's not the formal end of the hiking cycle, it's a halt to the cycle.. (...) If we see in the projection that domestic inflation drivers are developing, that would be a reason, a strong indication to increase interest rates, to continue the tightening cycle. (...) I said last time rates would be stopped at some point and that in the middle of the [next] year inflation would start declining and that in the last quarter [of 2023] or sooner there would be room to cut rates. What happened now, the new data somewhat weaken this expectation but I still stick to it. I hope that the first rate cut will be possible towards the end of next year." (6.10.2022, NBP press conference, PAP)
C. Kochalski	2.4	"Poland has little if any room to hike interest rates. It seems there isn't a lot of room because if we look at the so-called output gap, it is closing." (19.10.2022, TVN24, PAP).
W. Janczyk	2.0	"The coming months, I hope, will bring no particular reasons to continue the interest rate hike cycle, although the impact of energy prices in the upcoming autumn-winter season on the economy and consumers is hard to predict right now. (...) "The council will act adequately to situation in our economy. In my opinion, it will strive to keep the lowest possible interest rate levels [while] targeting a realistic return to the inflation target." (21.07.2022, PAP).
I. Duda	2.3	"One should tread very cautiously around potential further interest rates hikes, as we should also take care about maintaining an appropriate growth level and prevent unemployment from increasing." (5.10.2022, PAP)
G. Maslowska	2.1	--
I. Dabrowski	1.9	"According to my best knowledge as of today, as other things may crop up, year 2023 will be a year of inflation decline and we should find ourselves in the neighborhood of the inflation target in 2023." (17.10.2022, TOK FM, PAP) "In my opinion to-date hikes have been sufficient to extinguish excessive demand; it no longer exceed the economy's production potential, i.e. the output gap is no longer positive. (...) Further suppression of demand would lead straight to recession and unemployment increase and this is something we want to avoid." (17.20.2022, Parkiet)

*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.

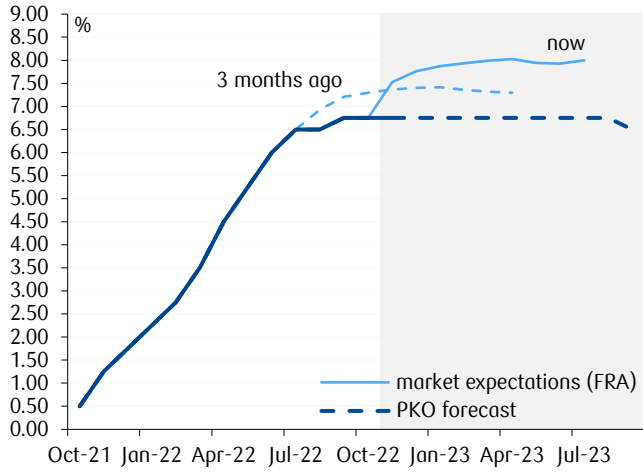
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	20-Oct	20-Nov	20-Dec	20-Jan	20-Feb	20-Mar	20-Apr	20-May	20-Jun	20-Jul
WIBOR 3M/FRA†	7.40	7.73	7.96	8.08	8.13	8.19	8.23	8.14	8.13	8.20
implied change (b. p.)		0.33	0.56	0.67	0.73	0.79	0.82	0.74	0.73	0.80
MPC Meeting	5-Oct	9-Nov	7-Dec	-	-	-	-	-	-	-
PKO BP forecast*	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
market pricing*		7.08	7.31	7.43	7.48	7.54	7.58	7.49	7.48	7.55

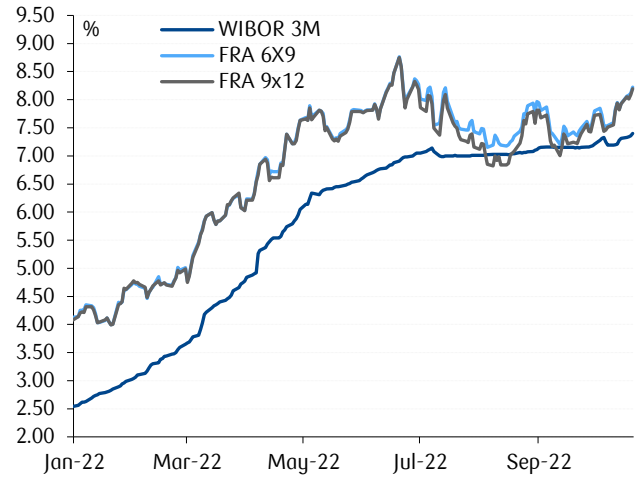
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

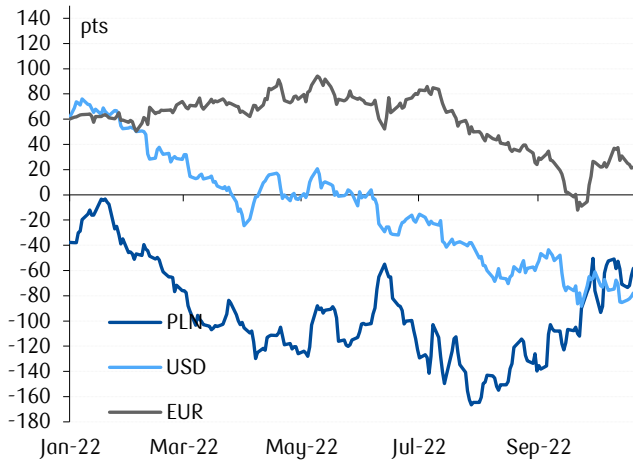
NBP policy rate: PKO BP forecast vs. market expectations



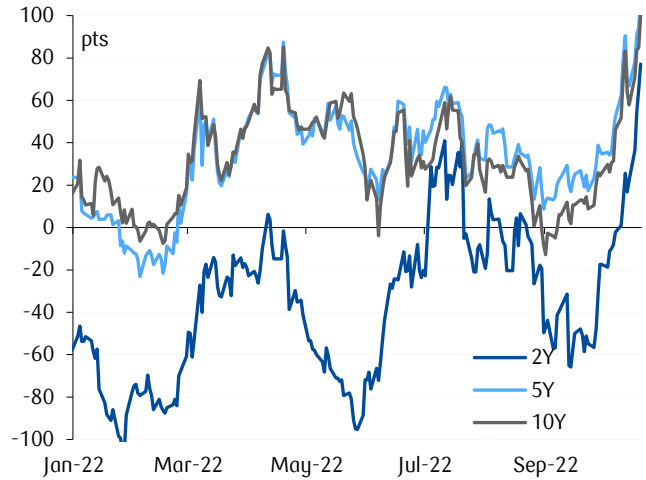
Short-term PLN interest rates



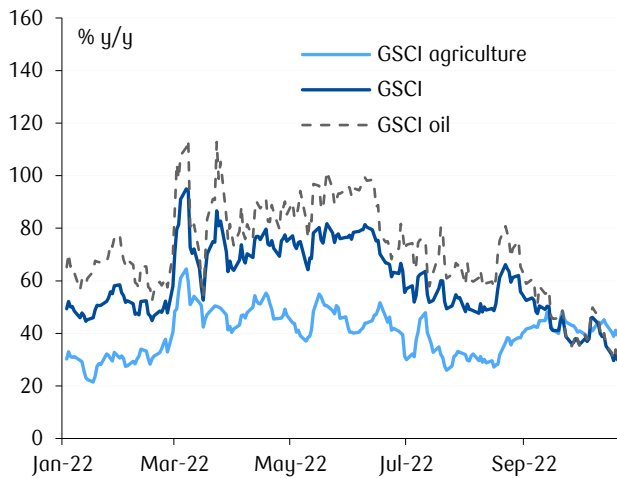
Slope of the swap curve (spread 10Y-2Y)*



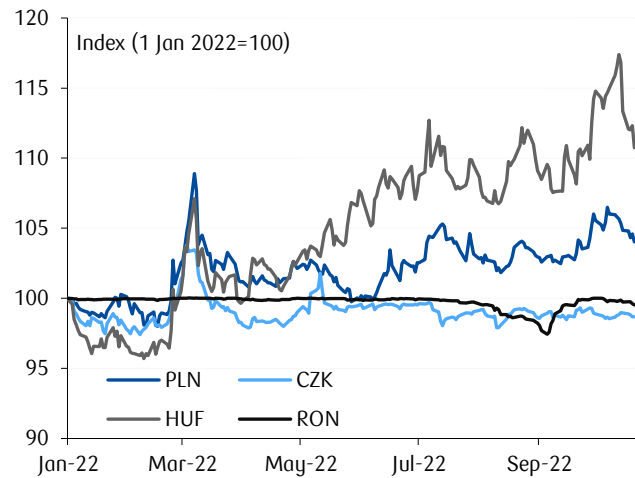
PLN asset swap spread



Global commodity prices (in PLN)

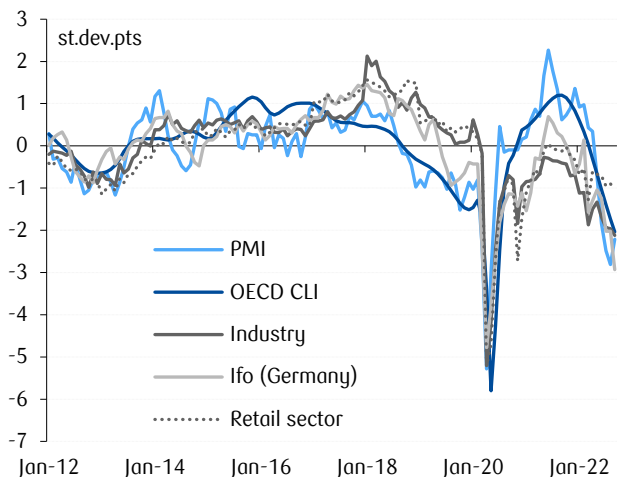


Selected CEE exchange rates against the EUR

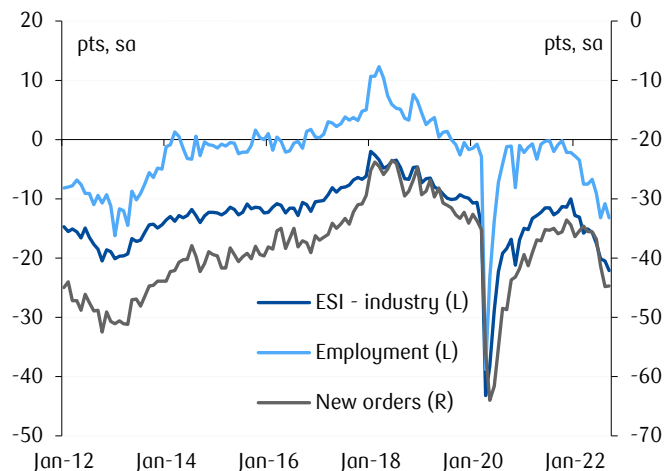


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

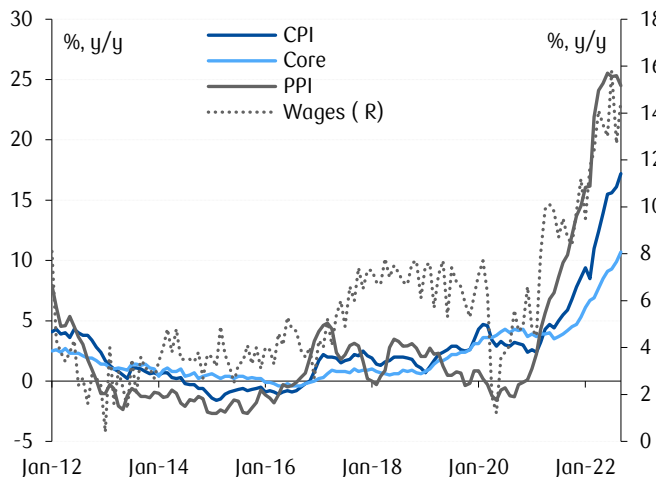
Economic sentiment indicators



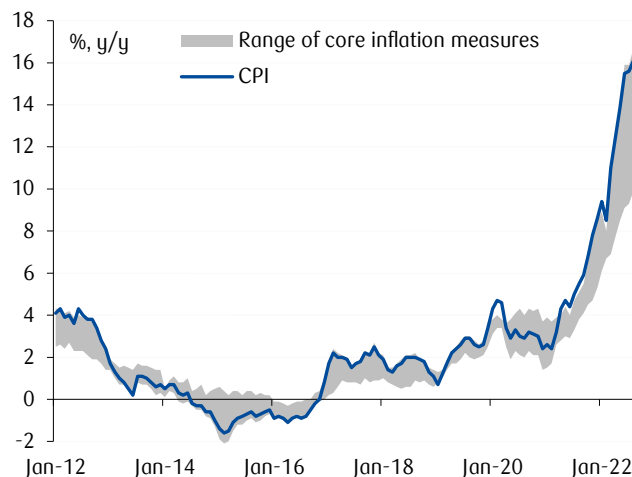
Poland ESI for industry and its components



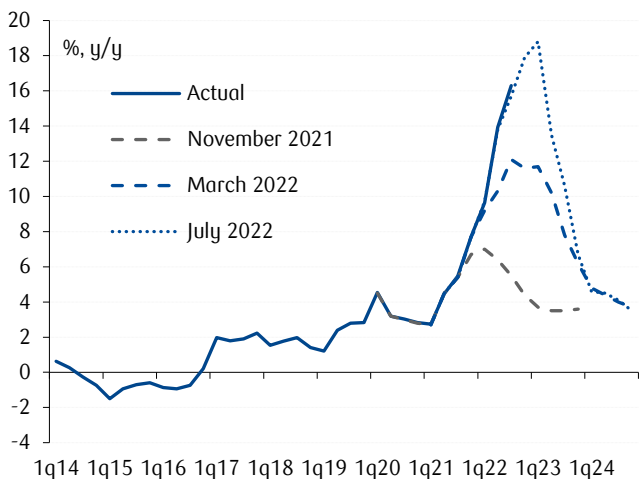
Broad inflation measures



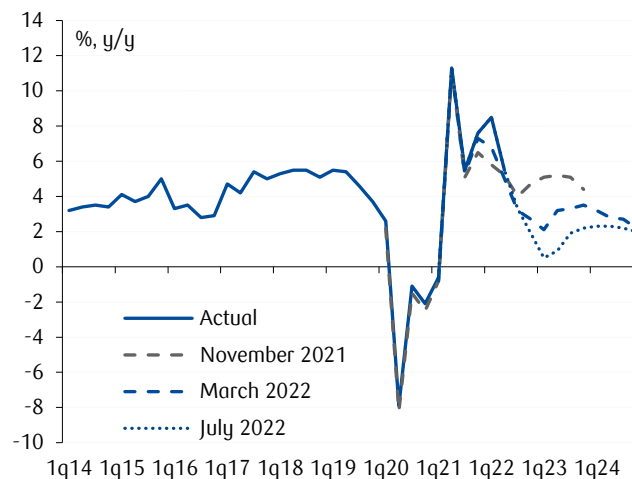
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

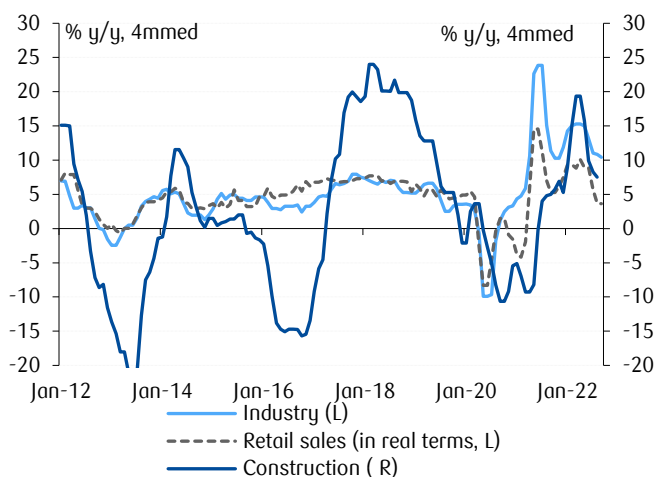


Real GDP growth – NBP projections vs. actual

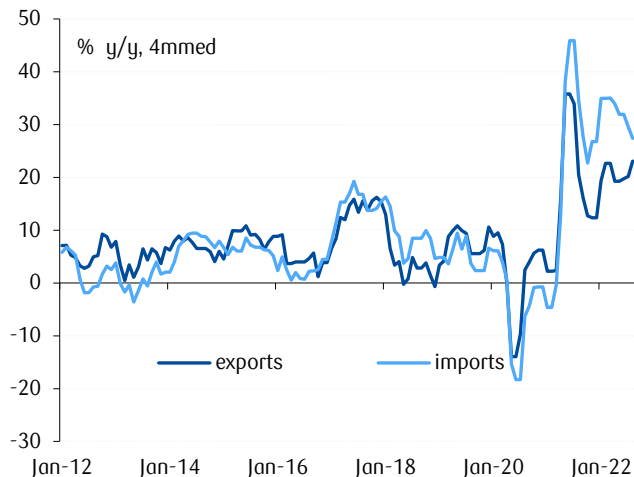


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

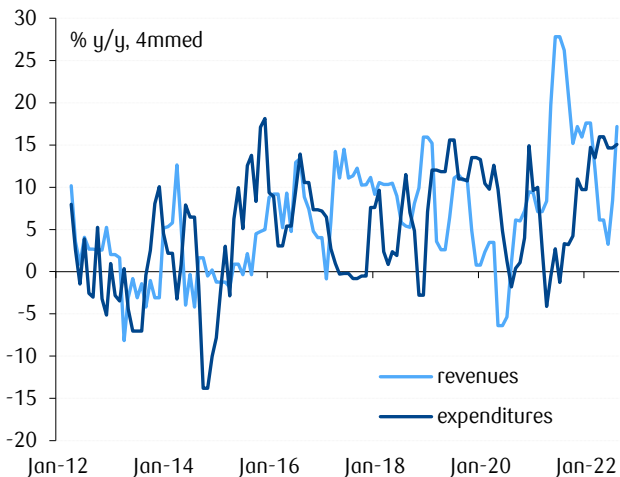
Economic activity indicators



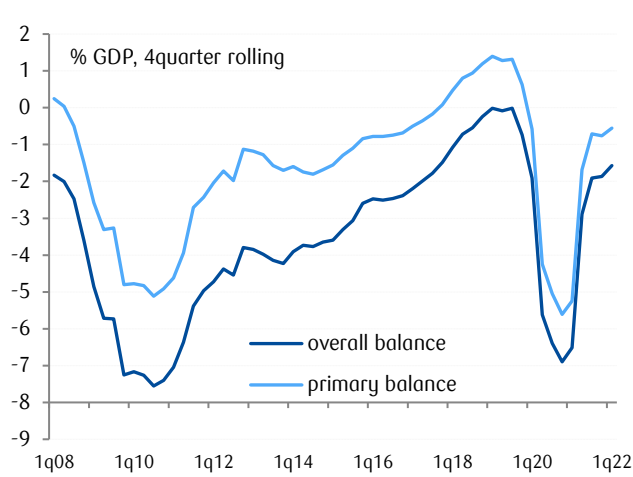
Merchandise trade (in EUR terms)



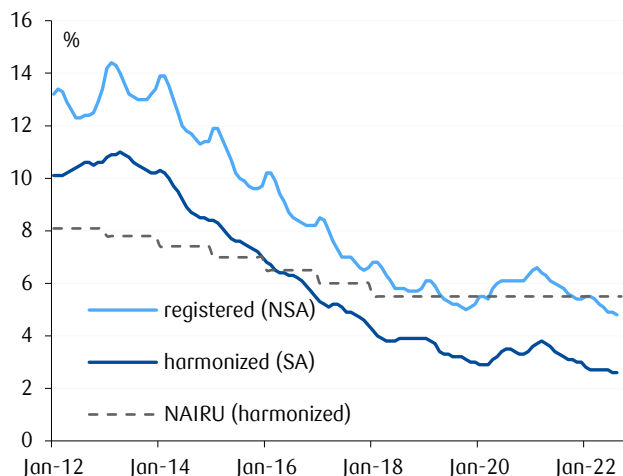
Central government revenues and expenditures*



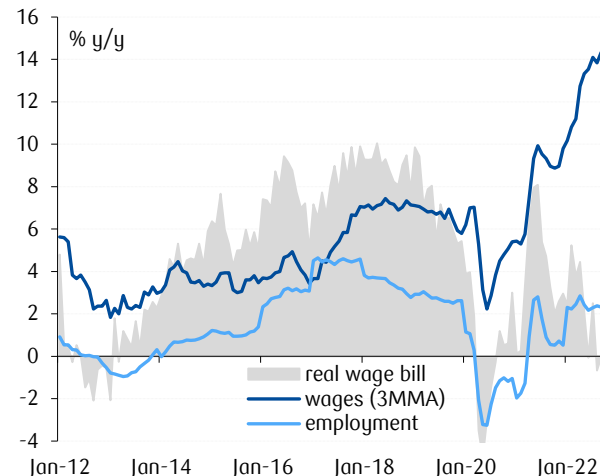
General government balance (ESA2010)



Unemployment rate

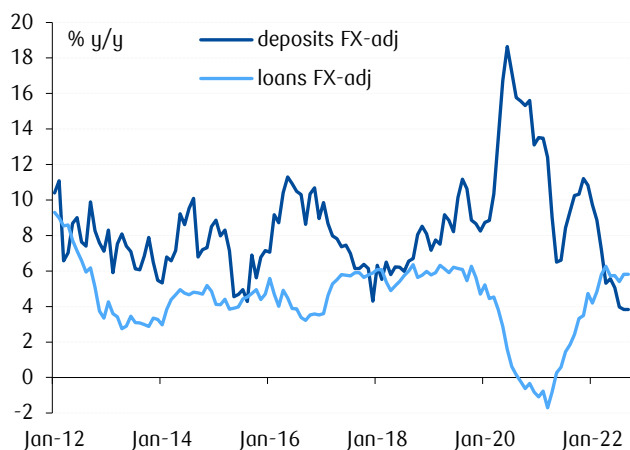


Employment and wages in the enterprise sector

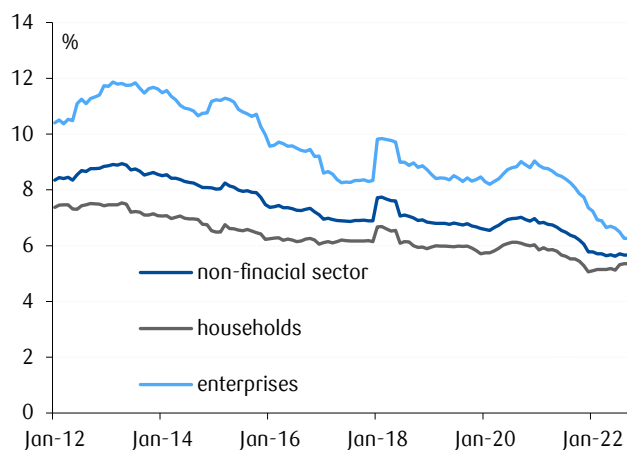


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

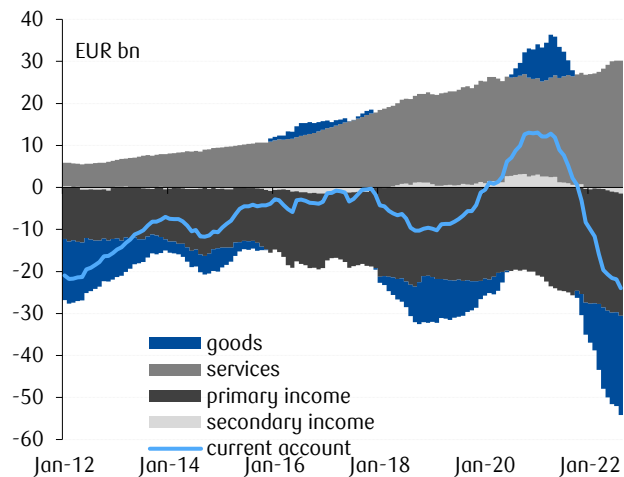
Loans and deposits



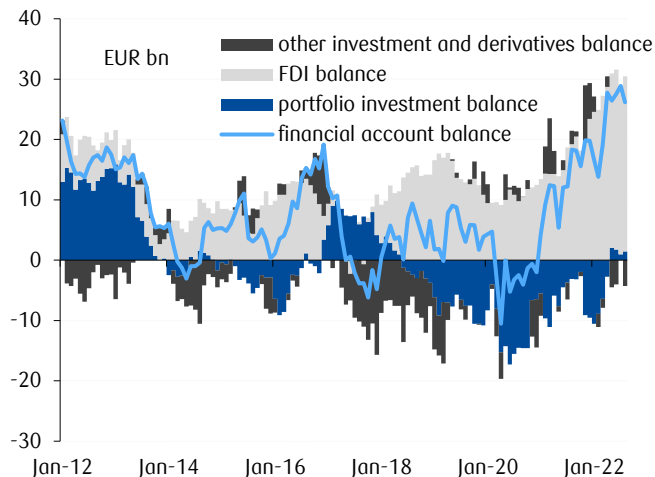
Non-performing loans (NPLs) - by sectors*



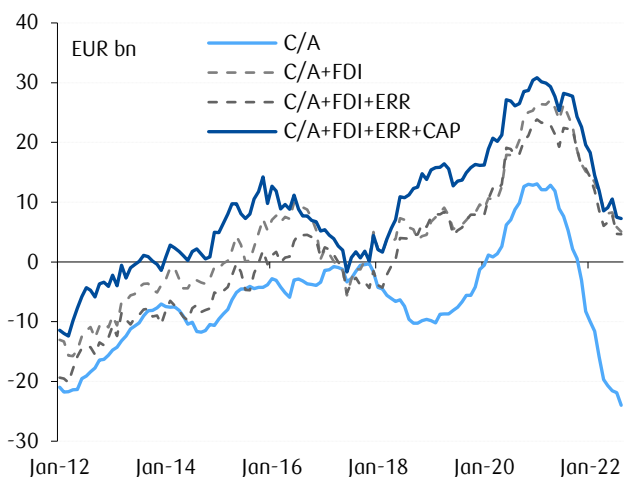
Current account balance



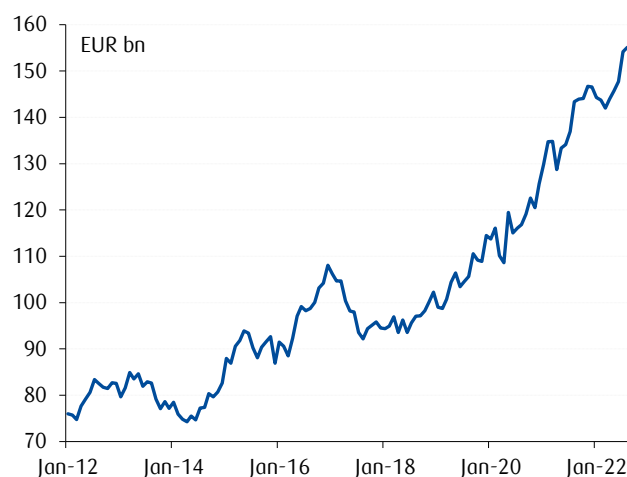
Financial account balance



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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- [Inflation sparked investments?](#) (Sep 2, 2022)
- [Costs jump, deals slow](#) (Aug 26, 2022)
- [It's payback time](#) (Aug 19, 2022)
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- [Nothing lasts forever](#) (Apr 22, 2022)
- [Deleveraging](#) (Apr 8, 2022)
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- [Hawkish governor in front of a hawkish MPC](#) (Mar 11, 2022)
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