

Costs jump, deals slow

TOP MACRO THEME(S):

- **Costs jump, deals slow (p. 2):** The sky-high growth rate of revenues of large companies (with 50+ employees) in 2q22 wasn't enough to beat the growth rate of corporate costs, but still profits were record high another quarter in a row. Inventory build-up most likely sparked an investment demand on own storage space, but also its structure suggests that there could be a problem with demand looming on the horizon.

WHAT ELSE CAUGHT OUR EYE:

- **High inflation and rising interest rates are weighing more and more on consumers in Poland.** A modest 2%-ish growth of retail sales in July (in real terms) as well as a rapid decline of consumer (-1.3% y/y in July, FX adj.) and PLN mortgage lending (5.3% y/y in July) growth rates suggests that the main engine of economic growth, namely private consumption, started to falter in 3q22.
- **Construction output** grew only 4.2% y/y in July as new investments in real estate sector hit a speed bump.
- Registered **unemployment rate** stood at 4.9% in July, an all-time low.
- **Minutes from the MPC meeting** in July confirmed that the MPC is in a data-driven mode and some members fear accommodative fiscal policy.

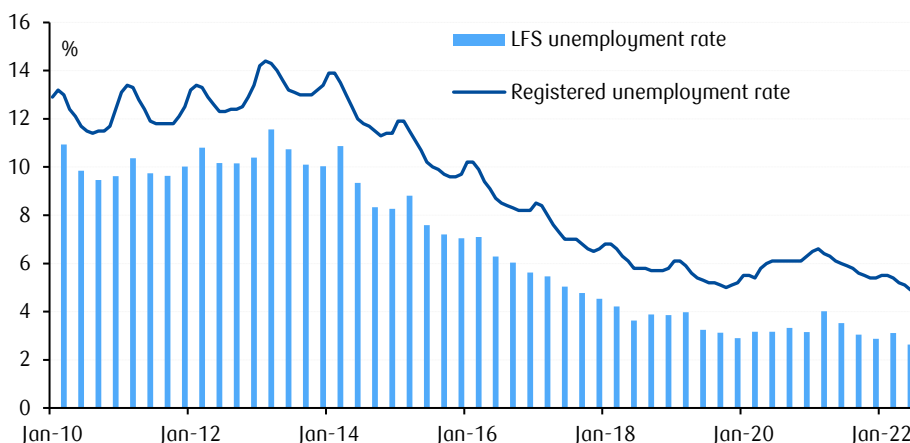
THE WEEK AHEAD:

- **Detailed GDP figures for 2q22** will be revealed on Wednesday. Our bet on a strong consumption (PKOe: 7.0%) and drop of investments (PKOe: -2.0%) and weaker inventory build-up could fail in light of incoming data (esp. from corporates).
- **CPI inflation in August** (flash estimate) most likely inched down on falling fuel prices (but still it stood above 15% y/y).
- **Manufacturing PMI** for August most likely stayed well below the neutral level.

NUMBER OF THE WEEK:

- **2.6%** – the LFS unemployment rate in 2q22, a new all-time low.

Chart of the week – Unemployment rate in Poland



Source: GUS, PKO Bank Polski.

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	2021	2022 _†
Real GDP (%)	5.9	4.9
Industrial output (%)	15.4	11.0
Unemployment rate [#] (%)	5.4	4.9
CPI inflation ^{**} (%)	5.1	13.3
Core inflation ^{**} (%)	4.1	8.3
Money supply M3 (%)	8.9	5.8
C/A balance (% GDP)	-0.7	-4.5
Fiscal balance (% GDP)*	-1.9	-2.8
Public debt (% GDP)*	53.8	50.8
NBP reference rate ^{##} (%)	1.75	7.00
EURPLN ^{†##}	4.60	4.62

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

Costs jump, deals slow

- The sky-high growth rate of revenues of large companies (with 50+ employees) in 2q22 wasn't enough to beat the growth rate of corporate costs, but still profits were record high another quarter in a row.
- Rising share of corporate profits in GDP suggests that share of wages in income declined and price-wage spiral is not a case.
- On the one hand, inventory build-up sparked an investment demand on own storage space, on the other, its structure suggests that there could be a problem with demand looming on the horizon.

The sky-high growth rate of revenues of large companies (50+ employees) in 2q22 (35.9% y/y vs. 30.2% y/y in 1q22) wasn't enough to beat the growth rate of corporate costs (36.1% y/y in 2q22 vs. 30.6% y/y in 1q22; see chart 1). That said, the net financial result of enterprises further improved (to PLN 75.6bn vs. PLN 58.9bn in 1q22) suggesting that the pace of improvement somewhat sped up. Indeed, **profits were record high another quarter in a row**, both in nominal terms and as % of GDP. Corporations still found it possible to pass rising input costs into output prices, thus defending successfully their margins. But there is another side of the coin: the return on sales inched down (by 0.1pp y/y to 6.1%). Faltering demand into 3q22 (esp. consumer one) on our anecdotal and hard data evidence with little perspectives to slash input costs significantly suggest that "costs jump and deals slow" story could have started to play out.

The ratio of net profit of the enterprise sector to GDP in 2q22 alone was record high again (chart 2). It is noteworthy that the corporate sales profitability, generally moving in a tandem with nominal GDP growth (chart 3, please note nominal GDP growth rate for 2q22 is a PKO estimate), performed even better in 2q22. Thus corporate profits share in national income most likely improved. In other words, the price-wage feedback loop slowed, despite accelerating wages in the corporate sector, that have been accompanied by visibly slower wage growth rate in public sector. On aggregate, there is still no price-wage spiral.

In 2q22, inventories growth sped up further again, most likely against the nominal GDP growth rate (chart 4). This is also against a sharp decline in real GDP growth rate in 2q22 (on q/q basis), which has been supposed to be a result of inventory reduction (or at least slower accumulation, see our previous Poland Macro Weekly "[It's payback time](#)"). The structure of inventories build-up (chart 5) suggests that except for materials (just-in-case stock model) stocks of finished goods and goods for resale also significantly increased. This suggests that demand could be a problem –we have already emphasized this a quarter ago (see our Poland Macro Weekly "[Not all gold that glows](#)", May 27th, 2022).

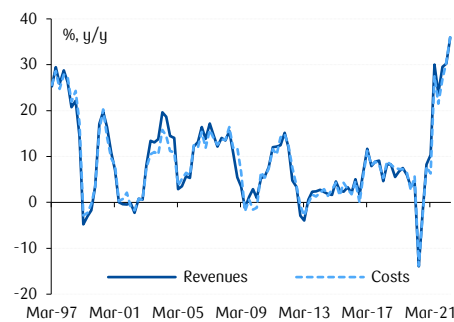
A massive inventories build-up has repercussions for corporate liquidity. Indeed, the liquidity ratios ceased to significantly improve (chart 6), with lower band of liquidity ratios going south. A massive working capital loans growth (it has further increased in 2q22, to 20.0% y/y from 14.7% y/y in 1q22) suggests that there is a liquidity problem ahead, should the demand backdrop materialize. Working capital loans growth rate is still comparable to the levels seen in 2h12-1h13 – when GDP growth rate in Poland hit zero. This is also in line with our baseline scenario for GDP growth rate, bottoming out in 1q23 well below zero.

Massive inventory build-up could have sparked a demand on own storage space. Indeed, corporate investments surprisingly increased in 2q22. In real terms, the **investments' increase was 7.2% y/y** (vs. 1.3% y/y in 1q22) suggesting that investment demand held up well in 2q22, contrary to our expectations (PKOe: -2.0% y/y, chart 7). The structure of corporate investment demand seems to confirm this thesis: outlays on buildings outweigh outlays on transport equipment and machinery. Moreover, the rebound of growth rate of investments value in corporate investment plans suggest that there is still a chance for soft landing ahead (chart 8).

In cooperation with:

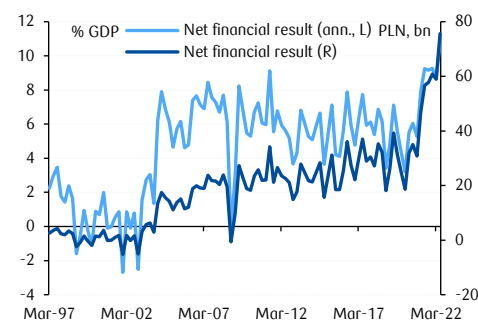
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1. Corporate* revenues and costs



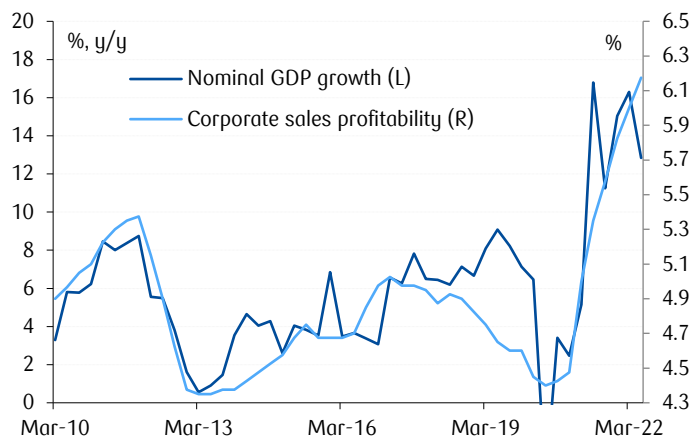
Source: GUS, PKO Bank Polski. *with 50+ employment.

2. Corporate* net financial result

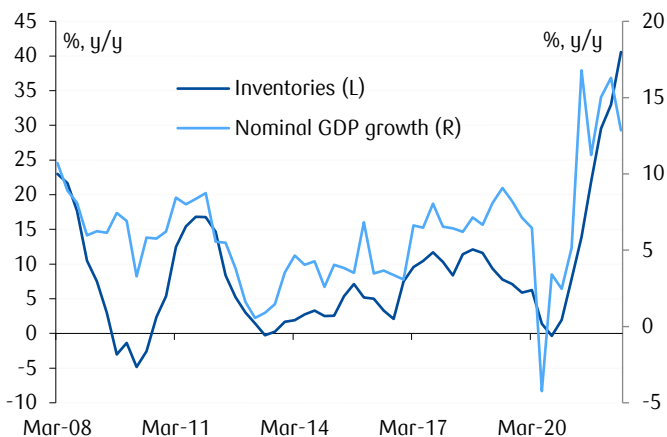


Source: GUS, PKO Bank Polski. *with 50+ employment.

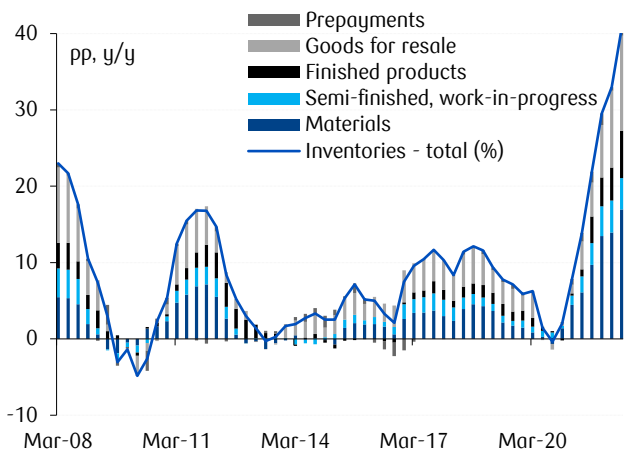
3. Corporate sales* profitability



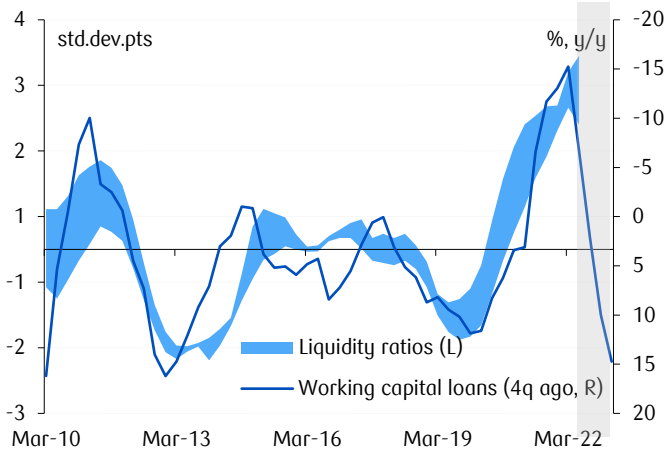
4. Corporate* inventories vs nominal GDP growth



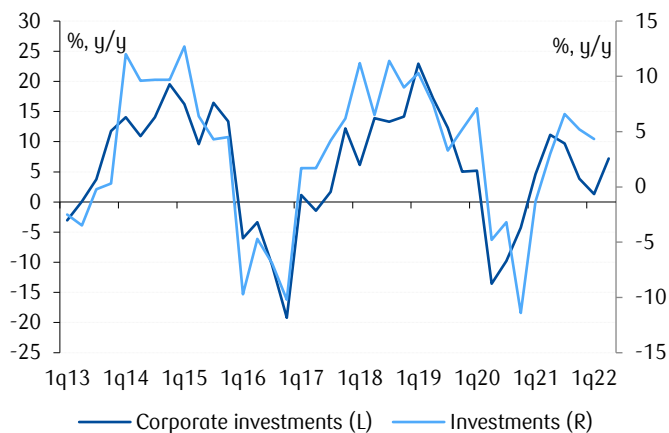
5. Structure of corporate* inventories growth



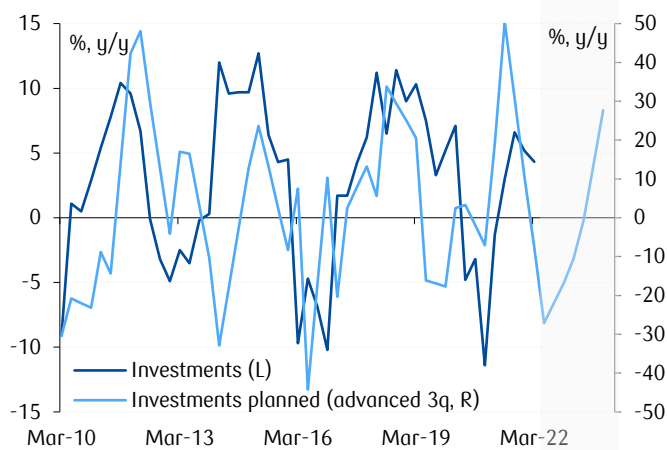
6. Range of liquidity ratios vs working capital loans



7. Corporate* vs total investments



8. Investments vs corporate* investment plans



Source: GUS, PKO Bank Polski. *with 50+ employment.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Tuesday, 30 August						
EUR: Economic Sentiment Indicator (Aug)	10:00	pts.	99.0	97.5	--	
EUR: Consumer Confidence (Aug, final)	10:00	pts.	-27.0	-24.9	--	
HUN: MNB meeting (Aug)	13:00	%	10.75	--	--	
GER: CPI inflation (Aug, flash)	13:00	% y/y	7.5	7.8	--	
GER: HICP inflation (Aug, flash)	13:00	% y/y	8.5	8.7	--	
USA: S&P CoreLogic CS 20-City (Jun)	14:00	% y/y	20.5	20.6	--	
USA: Consumer confidence (Aug)	15:00	pts.	95.7	97.5	--	
USA: JOLTS Report (Jul)	15:00	mn	10.698	11.0	--	
Wednesday, 31 August						
GER: Unemployment Rate (Aug)	8:55	%	5.4	5.5	--	
POL: GDP growth (2q)	9:00	% y/y	8.5	5.3	5.3	Details of GDP will reveal how much payback unwinding inventories cause. Inflation heading south on falling fuel prices.
POL: CPI inflation (Aug, flash)	9:00	% y/y	15.6	--	~15.0-15.5	
EUR: CPI inflation (Aug)	10:00	% y/y	8.9	9.0	--	
EUR: Core inflation (Aug, flash)	10:00	% y/y	4.0	4.0	--	
USA: ADP National Employment (Aug)	13:15	thous	128	--	--	
Thursday, 1 September						
CHN: Manufacturing PMI (Aug)	2:45	pts.	50.4	50.2	--	
POL: Manufacturing PMI (Aug)	8:00	pts	42.1	42.5	--	Index most likely stayed well below the neutral level.
GER: Manufacturing PMI (Aug, final)	8:55	pts	49.3	49.8	--	
EUR: Manufacturing PMI (Aug, final)	9:00	pts	49.8	49.7	--	
USA: Initial Jobless Claims	13:30	thous	245	--	--	
USA: Manufacturing PMI (Aug, final)	14:45	pts	52.2	51.3	--	
USA: ISM Manufacturing (Aug)	15:00	pts.	52.8	52.6	--	
Friday, 2 September						
GER: Exports (Jul)	7:00	% m/m	4.5	-3.0	--	
GER: Imports (Jul)	7:00	% m/m	0.2	1.3	--	
EUR: PPI inflation (Jul)	10:00	% y/y	35.8	37.4	--	
USA: Non-Farm Payrolls (Aug)	13:30	thous	528	290	--	
USA: Unemployment Rate (Aug)	13:30	%	3.5	3.5	--	
USA: Average Earnings (Aug)	13:30	% y/y	5.2	--	--	
USA: Factory orders (Jul)	15:00	% m/m	2.0	0.3	--	
USA: Durable goods orders (Jul, final)	15:00	% m/m	2.2	0.0	--	

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^
L. Kotecki	4.8	"I voted for a 100bp hike (PKO: eventually the MPC raised by 75bp) in May, because I am in favor of raising rates faster. I think we should act much faster, but shorter. It is better not to stretch out the increases over time. It would send a much stronger signal that fighting inflation is a priority. Perhaps we could have finished the cycle already in May." (5.08.2022, TVN24, PAP, PKO transl.)
H. Wnorowski	4.2	"It seems that the end of the hike cycle launched in October 2021 is close (...)" "some hikes could still take place in September, maybe also in October." (22.08.2022, Radio Maryja, PAP)
A. Glapinski	3.4	"We currently assume that during the holidays the inflationary pressure will stabilize and will start to subside in the following quarters (...) We hope that CPI inflation will follow and start to gradually decline. However, it [PAP: inflation] can be impacted by many factors and, as we know, times are turbulent. (...) we will likely reach single-digit inflation probably only at the end of 2023, (...) [PAP: If the government decided to maintain the anti-inflation shield to the end of 2023, in Q4'23] inflation should decline visibly, possibly even to a level only slightly exceeding the upper end of the NBP target range of 3.5% (17.08.2022, Gazeta Polska, PAP)
I. Dq̄browski	3.1	"In my opinion, if there will be another rate hike, it will be rather small - on a comparable scale to the last one (50bp - ed.) or even lower. If the decision depended solely on me, I would not raise rates at all anymore, or at most once by 25 bps." (19.07.2022, PAP)
C. Kochalski	3.1	"The room for rate hikes is in July, possibly also in September. (...) 50-75 bps are the very likely ranges of the pace of change of interest rates. (...) We expect inflation peak to take place in Q3." (10.06.2022, PAP).
P. Litwiniuk	2.9	"In my opinion, two factors are of essence (...) The first one is the continuously growing - maybe not significantly, but still - core inflation. The other factor is the budget policy. (...) These two factors constitute two basic premises, though not the only ones, [PAP: for] formulating a view as to the necessity of further monetary policy tightening" (17.08.2022, biznes24, PAP)
W. Janczyk	2.4	"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).
(Vacant places (3))	--	--

*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.

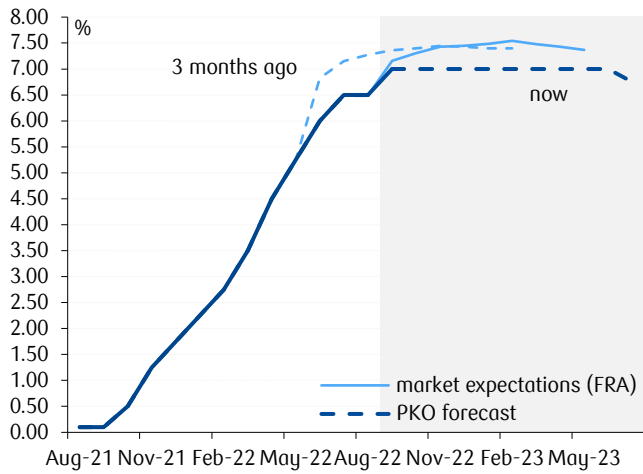
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	25-Aug	25-Sep	25-Oct	25-Nov	25-Dec	25-Jan	25-Feb	25-Mar	25-Apr	25-May
WIBOR 3M/FRA†	7.06	7.36	7.51	7.63	7.65	7.69	7.74	7.68	7.63	7.57
implied change (b. p.)		0.30	0.45	0.57	0.59	0.63	0.68	0.62	0.57	0.51
MPC Meeting	-	7-Sep	5-Oct	9-Nov	7-Dec	-	-	-	-	-
PKO BP forecast*	6.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
market pricing*		6.80	6.95	7.07	7.09	7.13	7.18	7.12	7.07	7.01

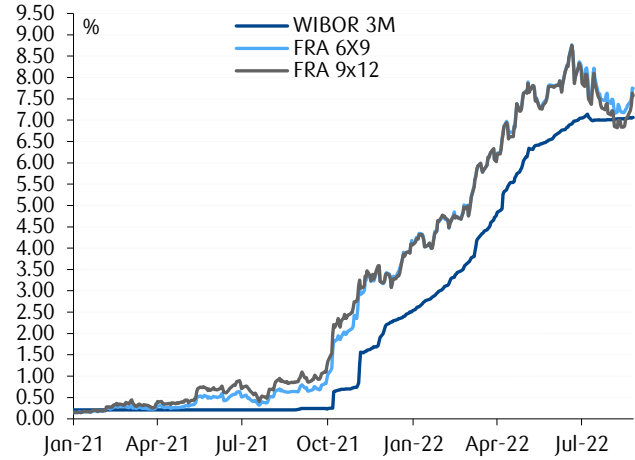
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

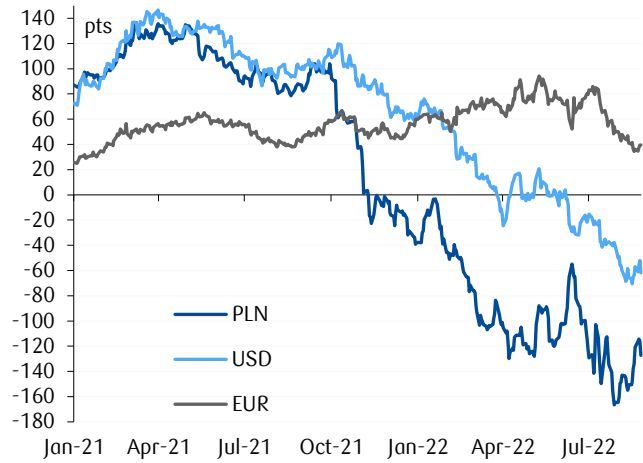
NBP policy rate: PKO BP forecast vs. market expectations



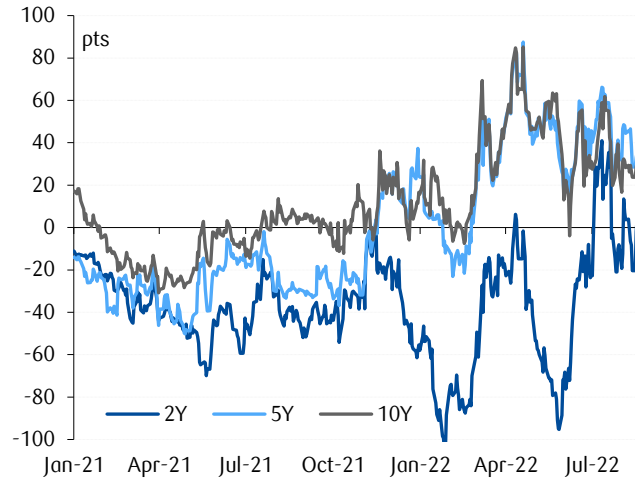
Short-term PLN interest rates



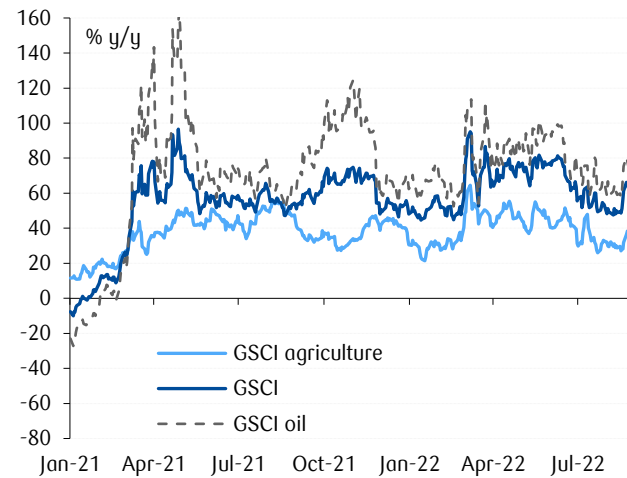
Slope of the swap curve (spread 10Y-2Y)*



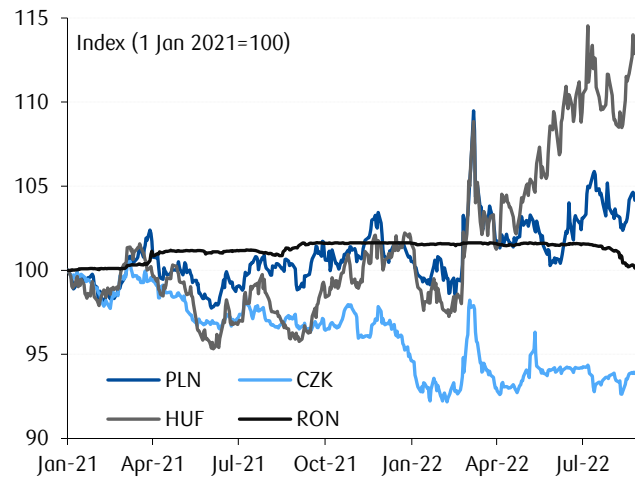
PLN asset swap spread



Global commodity prices (in PLN)

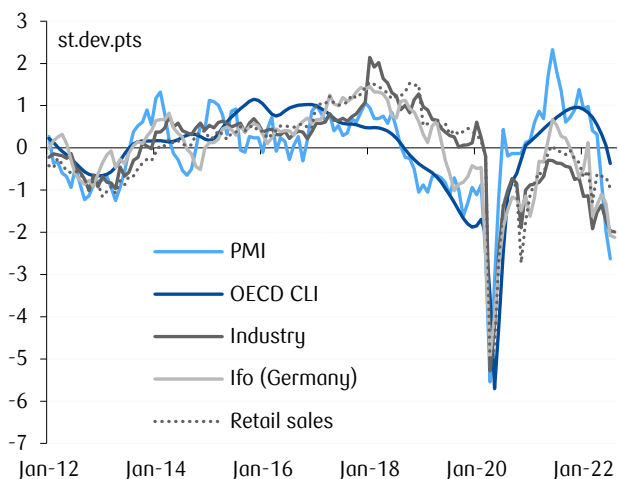


Selected CEE exchange rates against the EUR

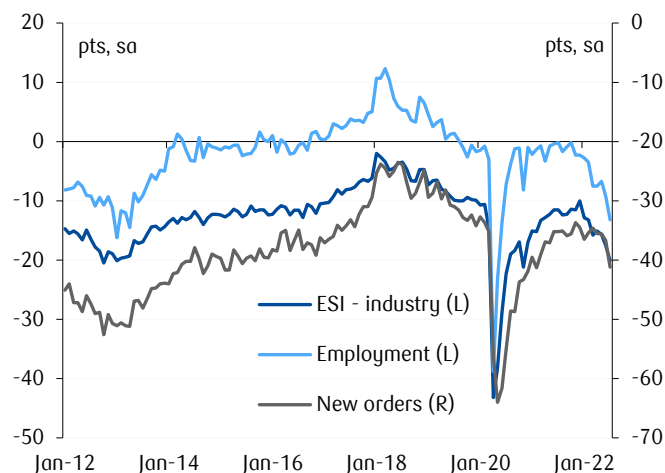


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

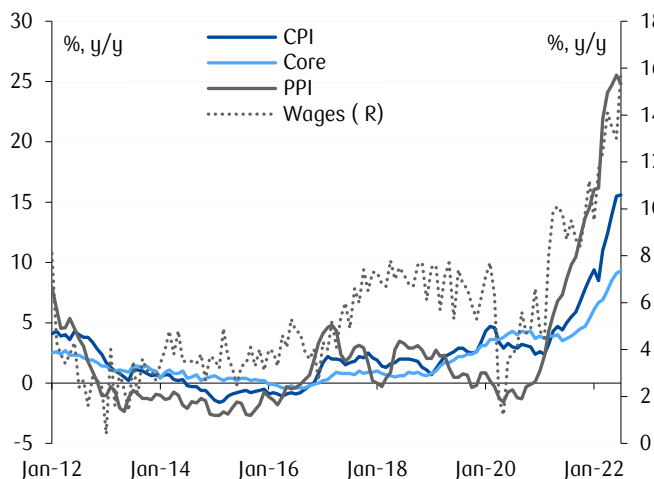
Economic sentiment indicators



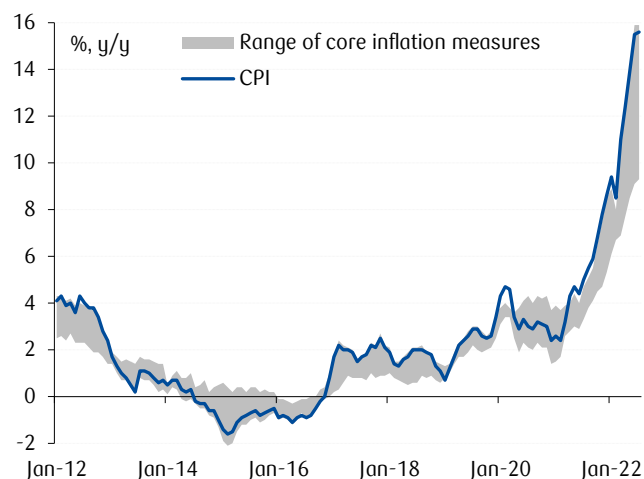
Poland ESI for industry and its components



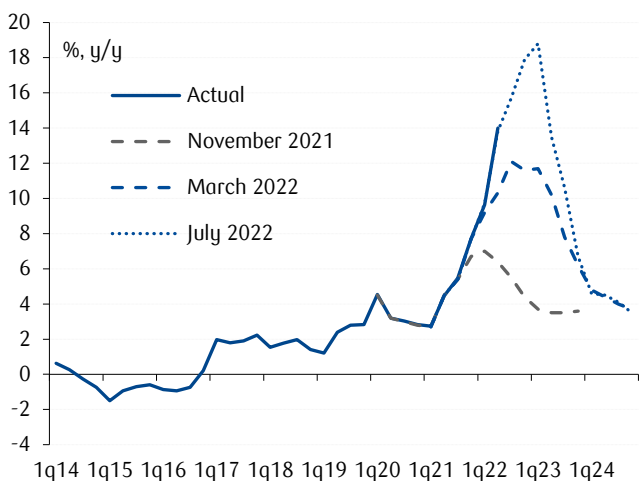
Broad inflation measures



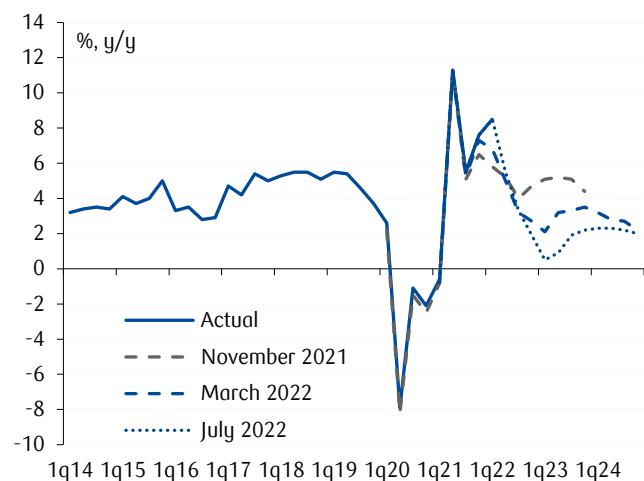
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

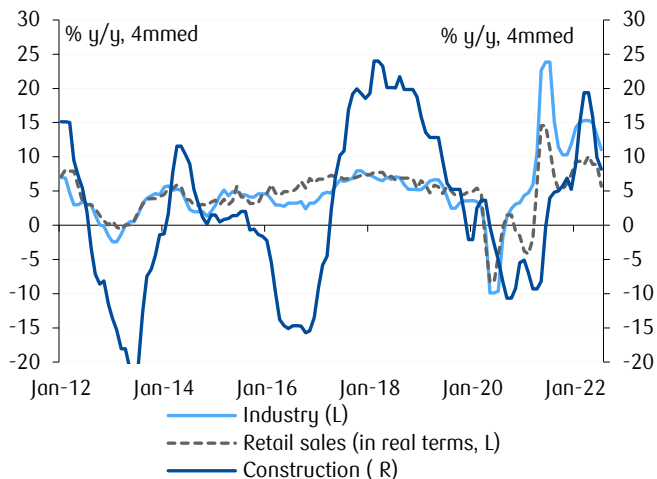


Real GDP growth – NBP projections vs. actual

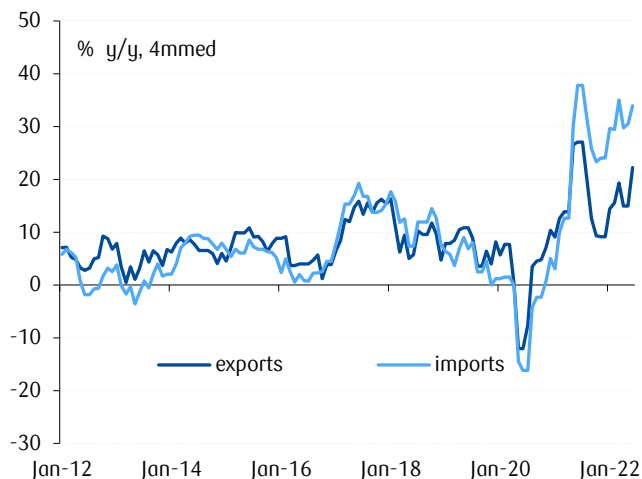


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

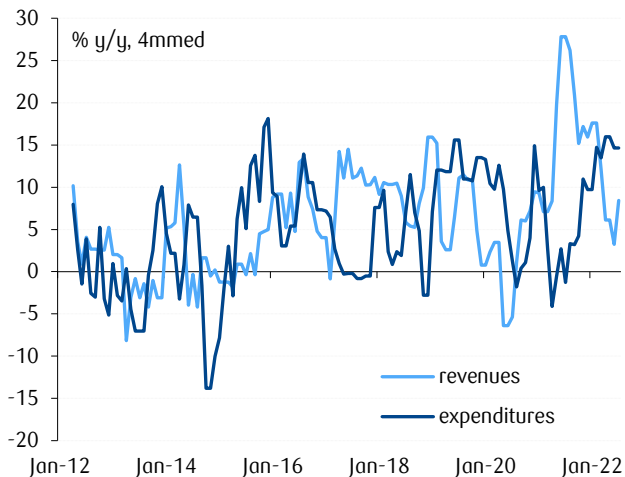
Economic activity indicators



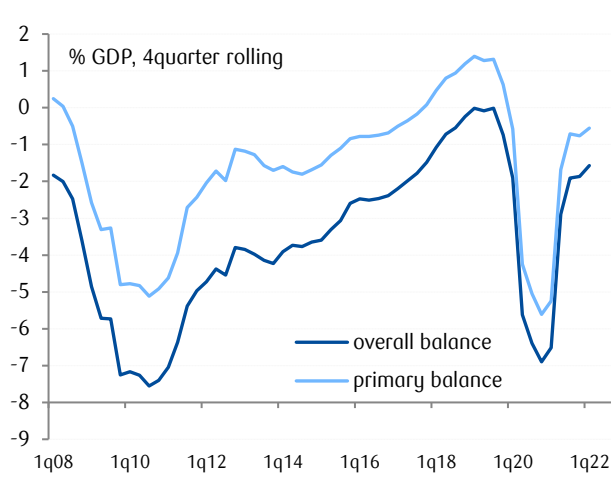
Merchandise trade (in EUR terms)



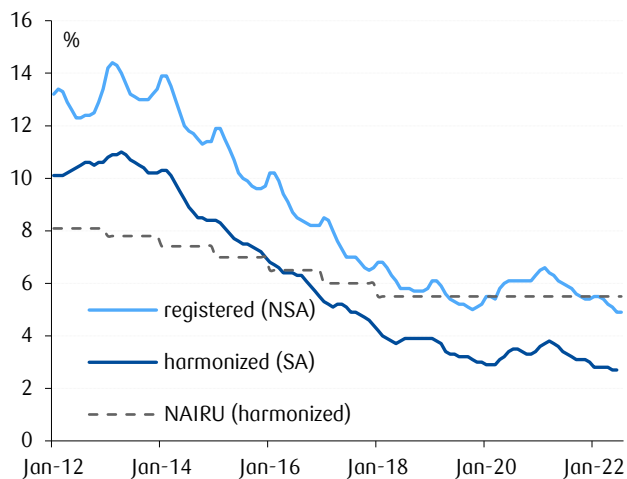
Central government revenues and expenditures*



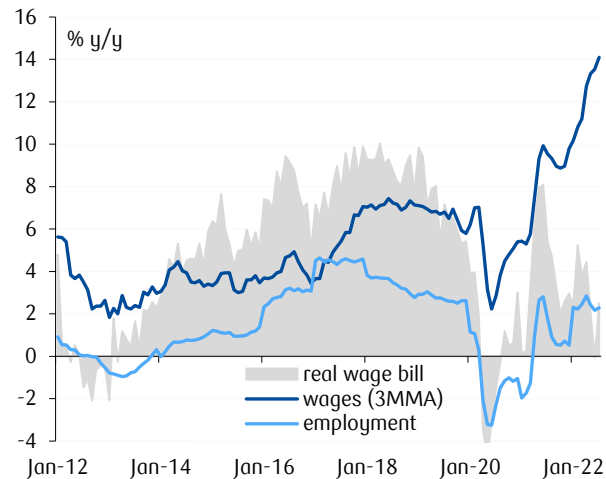
General government balance (ESA2010)



Unemployment rate

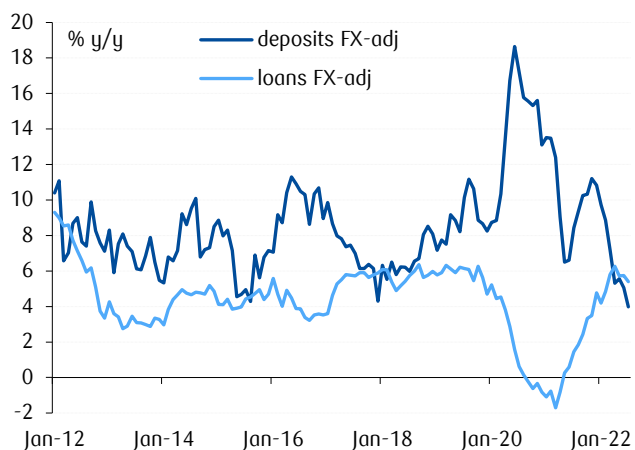


Employment and wages in the enterprise sector

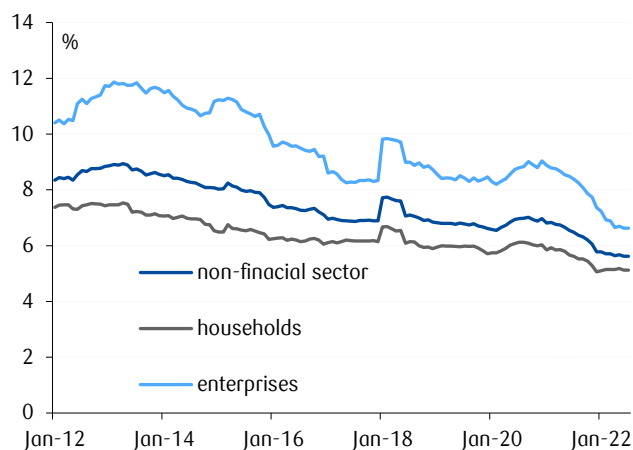


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

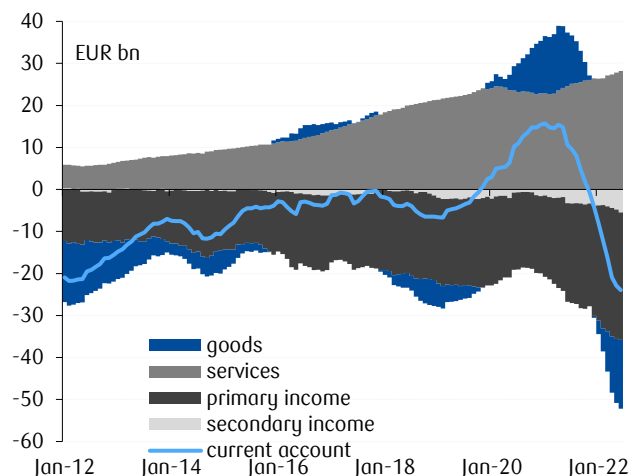
Loans and deposits



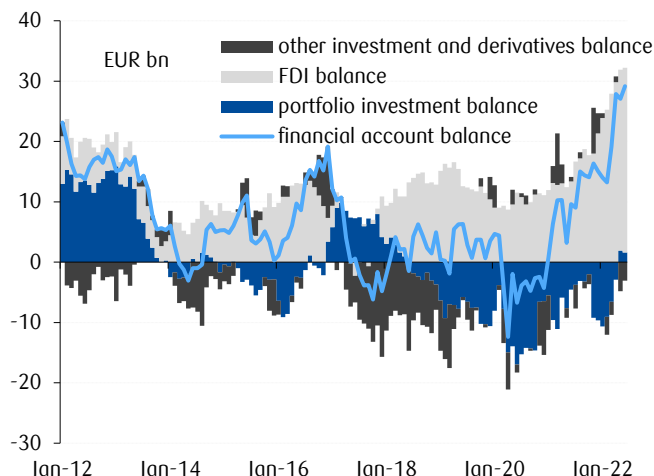
Non-performing loans (NPLs) - by sectors*



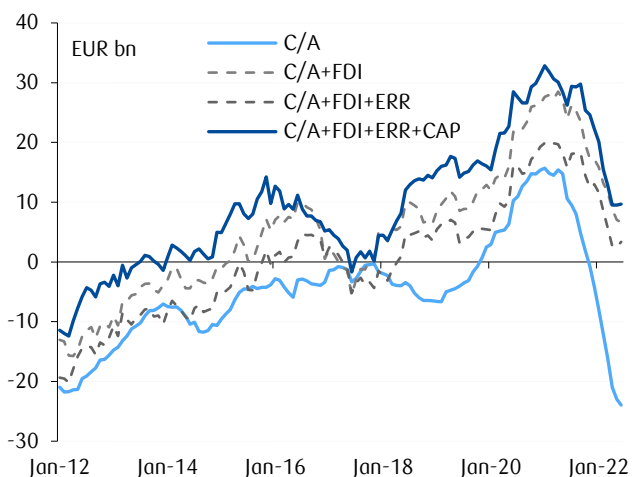
Current account balance



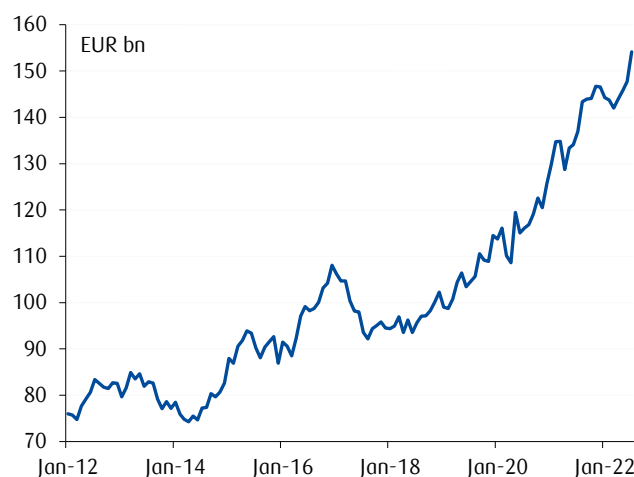
Financial account balance



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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- [Turning point?](#) (Jul 15, 2022)
- [Inflation vs recession dilemma](#) (Jul 8, 2022)
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- [Dry loan tap has frozen the market](#) (Jun 24, 2022)
- [A bitter pill of interest rate hikes](#) (Jun 10, 2022)
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- [Housing market boom is getting over](#) (Dec 17, 2021)
- [It's not the last word on the matter](#) (Dec 10, 2021)

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