

## Frozen: the housing market

### TOP MACRO THEME(S):

- **Frozen: the housing market (p. 2):** The housing market is currently going through a strong decline in transaction volume. On the supply side we can still see a large number of projects under construction and a rapidly growing number of completed and unsold units on the primary market. We expect housing prices to fall in the coming year, with deeper declines in smaller cities. The full report (in Polish) of PKO's Real Estate Research Team is available [here](#).

### WHAT ELSE CAUGHT OUR EYE:

- **Final CPI figures** for September showed that as for now weaker demand is not enough to calm down price pressures. The surge in core CPI (PKOe: 10.7%) reflects some one-off shifts in education and cloths (cold September).
- **Current account deficit** for August deteriorated on energy bill (to 3.9% of GDP, 12month cumulative). That said, exports got a boost from reviving automotive.

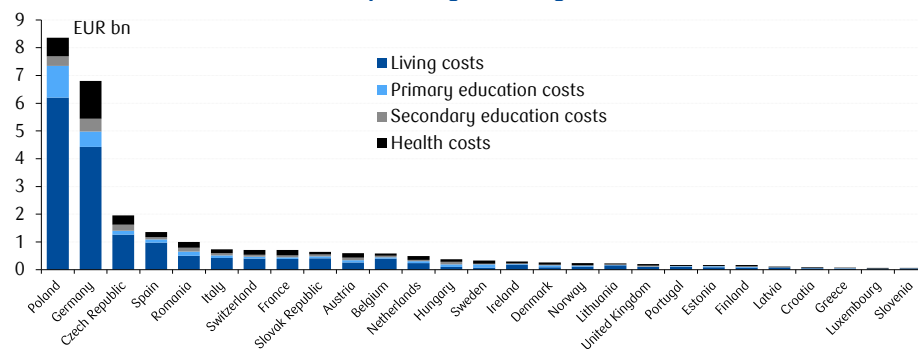
### THE WEEK AHEAD:

- **'Inflation bites consumers' is the main story for Poland's next week data releases.** Indeed, accelerating **core inflation** in September (PKOe: 10.7%) indicates that a broad range of price lists is still to be updated. This is a major blow to **consumer confidence**, which is close to record lows. **Wages** (PKOe: +13.6% y/y) can't keep up pace with inflation anymore. Hopefully, labour shortages mean that declining demand on workers will manifest in fall of vacancies first while **employment** (PKOe: +2.4% y/y) reduction is a second choice. Last but not least, increased population (refugees settling down) kept real **retail sales** afloat (PKOe: 5.2% y/y). There is a light in a dark inflation tunnel: a **PPI inflation** 'plateau' (PKOe: 25.5% y/y) would signal some easing of CPI inflation is still at play.
- Despite recession in German manufacturing, **industry in Poland held up well in September** (8.5% y/y). Weakness of housing permits and mortgage loans suggests some **construction works cooling ahead**, but September figure should still look fine (PKOe: 6.1% y/y).
- Eurostat will publish **fiscal data (ESA) for 2q22**. We estimate fiscal deficit (1.6% of GDP after 1q22) barely changed as war-related costs (incl. aid for refugees, see chart of the week) were offset with revenues boosted by elevated nominal GDP growth rate.

### NUMBER OF THE WEEK:

- **693 PLN/MWh (~EUR 145)** - a price cap on electricity for households in 2023; if approved it will shift our CPI inflation forecast down by approx. 1.5pp.

### Chart of the week – Estimated spending on refugees from Ukraine in 2022



Source: OECD, PKO Bank Polski.

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	2021	2022 <sub>†</sub>
Real GDP (%)	6.8	4.3
Industrial output (%)	15.6	10.4
Unemployment rate <sup>#</sup> (%)	5.4	4.9
CPI inflation <sup>**</sup> (%)	5.1	14.1
Core inflation <sup>**</sup> (%)	4.1	8.8
Money supply M3 (%)	8.9	5.8
C/A balance (% GDP)	-1.4	-4.4
Fiscal balance (% GDP) <sup>*</sup>	-1.9	-2.2
Public debt (% GDP) <sup>*</sup>	53.8	50.8
NBP reference rate <sup>##</sup> (%)	1.75	6.75
EURPLN <sup>†††</sup>	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

## Frozen: the housing market

- The housing market is currently going through a strong decline in transaction volume. On the supply side we can still see a large number of projects under construction and a rapidly growing number of completed and unsold units on the primary market. We expect housing prices to fall in the coming year, with deeper decline in smaller cities.

The transaction volume fell strongly in 1h22, with sales falling most sharply in the primary market – with declines reaching 70% y/y - the scale of the weakening on the secondary market is approximately 50% y/y. The decline in sales is relatively deeper in the smaller cities. We also observe a strong drop in real estate purchases located outside the buyer's place of residence, therefore it can be concluded that investment demand has fallen even more than consumption demand.

The reason for the decline in transactional volume is a marked reduction in creditworthiness due to interest rate hikes, a decline in real income as well as higher IRR expectations by investment buyers. Looking at the market from the supply side, we can still see a large number of projects under construction and a rapidly growing number of completed apartments in the primary market – this growth in 1h22 was even 50%, stronger in smaller cities.

In the recent months we have seen a drop in total unit price, mainly due to the declining average floor area. The average area decreased in 3q22 by about 10% compared to the end of 2021. Prices per sqm stopped growing - in the largest cities we can observe q/q price stabilization in 3q22, while in smaller cities we can talk about a decrease in the average price per sqm.

Looking at the rental market, we can see a very strong increase in rents - by about 40% compared to the period before the outbreak of the war in Ukraine. This increase resulted from additional demand coming from Ukrainian citizens now living in Poland, limited creditworthiness pushing potential apartment buyers into the rental market, students returning from remote to in-person education and an increase in the expected rate of return by apartment owners. To some extent, the increase in rental demand results from the fact that the typical mortgage payments are now higher than rental rates. This situation usually occurs when the long-term interest rate, which determine the CapRate on the rental market (and thus rents), is lower than the short-term interest rate (which affects the mortgage payments). A yield curve inversion is, however, a rare phenomenon - it has been the case for only 13% of the time in last 20 years.

We expect a stagnation on the demand side of the housing market in coming months with a significant risk of oversupply because of a still large number of projects under construction, especially in smaller cities. This situation will generate a negative pressure on sqm price, the prices should fall in the coming year, with deeper decline in smaller cities.

The demand side is currently probably at its lowest point. High pace of wage growth with the assumed decline in housing prices should support the future purchasing power. What's more, the Monetary Policy Council is likely to start thinking about cutting interest rates in 2h23, which could create a demand impulse. We expect a significant decline on the supply side in a 2-year time. Future supply shortages will be particularly pronounced in the largest cities. Resurgent demand with limited supply together with the assumption of housing prices stickiness will lead to a renewed increase in housing prices around 2025.

Rents will remain under upside pressure in the coming months. However, interest rate cuts and normalization of the yield curve in 2h23 should stabilize rents in late 2023.

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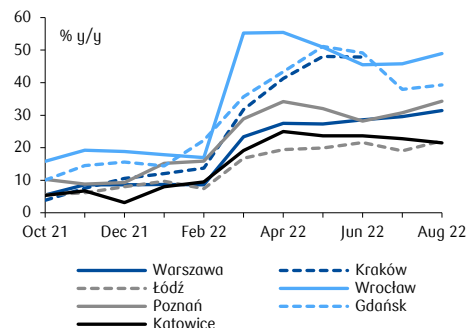
Agnieszka Grabowiecka-Łaszek  
 Wojciech Matysiak

### Value of mortgage applications



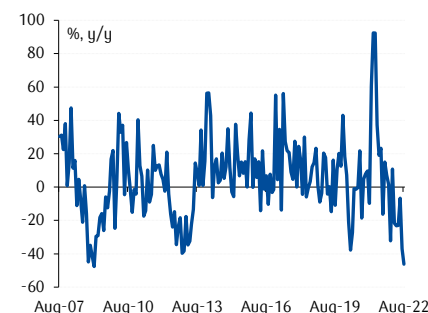
Source: BIK, PKO Bank Polski.

### Rental rates



Source: NBP, PKO Bank Polski.

### Housing starts



Source: GUS, PKO Bank Polski.

## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Monday, 17 October</b>						
POL: Core inflation (Sep)	13:00	% y/y	9.9	10.7	10.7	Second round effects of the energy shock are diffusing throughout other goods and services.
<b>Tuesday, 18 October</b>						
GER: ZEW Economic Sentiment (Oct)	10:00	pts.	-61.9	-66.0	--	--
USA: Industrial production (Sep)	14:15	% m/m	-0.2	-0.1	--	--
<b>Wednesday, 19 October</b>						
POL: Consumer Confidence (Oct)	9:00	pts.	-44.2	--	-44.4	Inflation heading north is a major blow to consumer confidence.
EUR: HICP inflation (Sep, final)	10:00	% y/y	9.1	10.0	--	--
EUR: Core inflation (Sep, final)	10:00	% y/y	4.3	4.8	--	--
USA: Building Permits (Sep)	13:30	thous.	1542	1575	--	--
USA: Housing starts (Sep)	13:30	thous.	1575	1500	--	--
<b>Thursday, 20 October</b>						
POL: Wages (Sep)	9:00	% y/y	12.7	13.1	13.6	Wages still can't keep up pace with inflation.
POL: Employment (Sep)	9:00	% y/y	2.4	2.4	2.4	Labour shortages mean that declining demand on workers will manifest in a decline in the number of vacancies first.
POL: Industrial production (Sep)	9:00	% y/y	10.9	8.8	8.5	Despite recession in Germany, industry in Poland is holding up well.
POL: PPI inflation (Sep)	9:00	% y/y	25.5	25.5	25.5	A PPI inflation 'plateau' signals a moderation of CPI inflation as well.
USA: Initial Jobless Claims	13:30	thous.	228	--	--	--
USA: Existing home sales (Sep)	15:00	thous.	4.8	4.7	--	--
<b>Friday, 21 October</b>						
POL: Construction output (Sep)	9:00	% y/y	6.1	6.6	6.1	Weakness of housing permits and mortgage loans suggests some construction works cooling ahead.
POL: Retail sales (Sep)	9:00	% y/y	4.2	4.5	5.2	Higher population (refugees settling down) keeps sales afloat.
POL: Fiscal deficit (ESA, 2q)	9:00	% of GDP	-1.6	--	-1.5	War-related costs (incl. aid for refugees) put a pressure on expenditure side while revenues thrives on high nominal GDP growth.
EUR: Consumer Confidence (Oct, flash)	15:00	pts.	-28.8	--	--	--

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	<b>"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)</b>
H. Wnorowski	4.2	"With the current state of knowledge, the main interest rate should not rise above 7 percent. I see no reason why it should be higher. But a caveat is needed here: this is an assessment with the current state of knowledge." (19.09.2022, Parkiet)
A. Glapinski	3.4	"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)
I. Dabrowski	3.1	"Relax. It is not speculative capital that makes decisions only the independent Monetary Policy Council. No attacks on the zloty will change that. Personally, I like to act under pressure; I also believe in exporters." (29.09.2022, Twitter)
C. Kochalski	3.1	"The space for further rate hikes has decreased significantly, and the probability of the end of the hike cycle has increased. After the MPC's September decision, the probability of no change in rates in October increased." (12.09.2022, Reuters).
P. Litwiniuk	2.9	<b>"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)</b>
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).
I. Duda	--	<b>"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)</b>
J. Tyrowicz	--	<b>"With today's inflation expectations, they [PAP: rates] should be hiked by several percentage points still" (11.10.2022, money.pl, PAP)</b>
G. Maslowska	--	--

\*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.

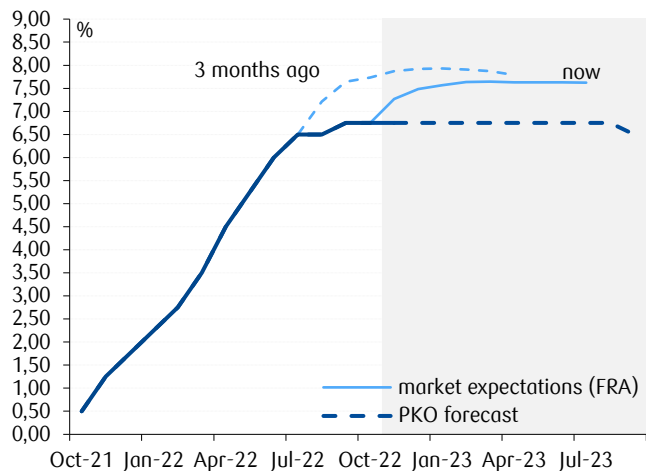
### Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
<b>Date</b>	13-Oct	13-Nov	13-Dec	13-Jan	13-Feb	13-Mar	13-Apr	13-May	13-Jun	13-Jul
<b>WIBOR 3M/FRA†</b>	7.28	7.47	7.68	7.77	7.84	7.85	7.83	7.83	7.83	7.82
<b>implied change (b. p.)</b>		0.19	0.40	0.49	0.56	0.57	0.55	0.55	0.55	0.54
<b>MPC Meeting</b>	5-Oct	9-Nov	7-Dec	-	-	-	-	-	-	-
<b>PKO BP forecast*</b>	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
<b>market pricing*</b>		6.94	7.15	7.24	7.31	7.32	7.30	7.30	7.30	7.29

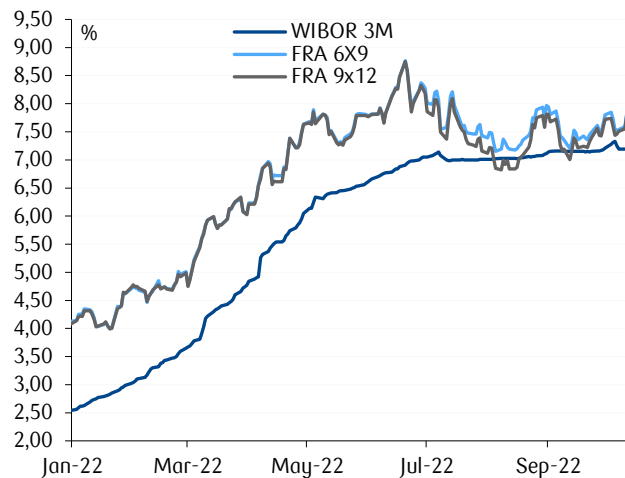
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

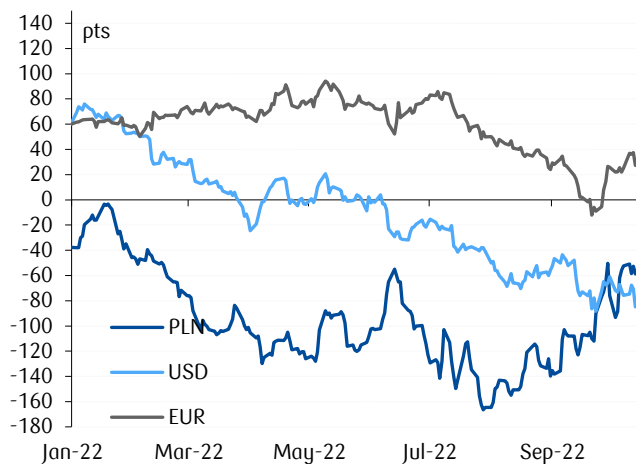
NBP policy rate: PKO BP forecast vs. market expectations



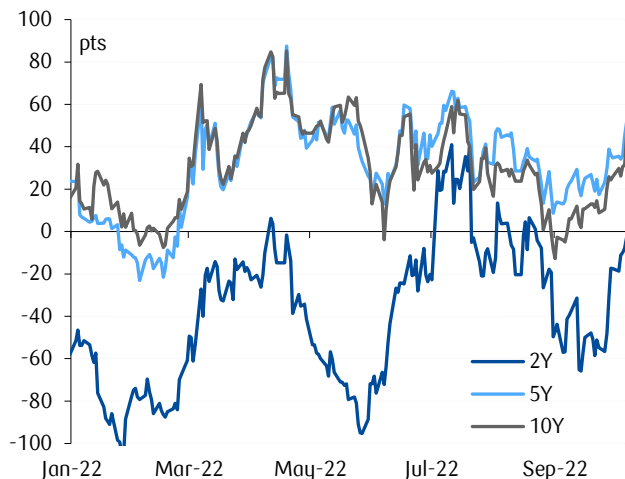
Short-term PLN interest rates



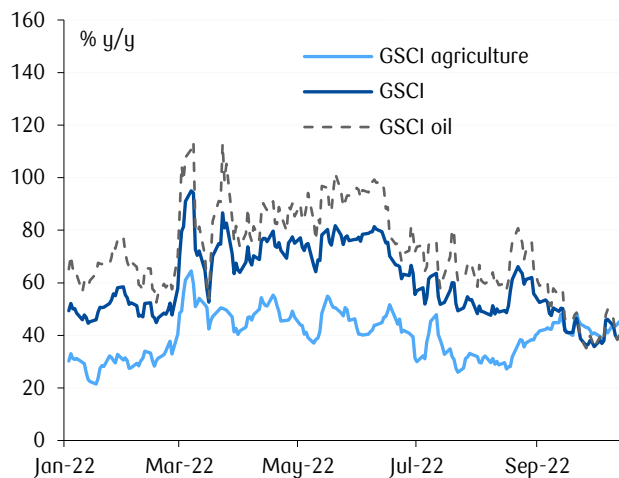
Slope of the swap curve (spread 10Y-2Y)\*



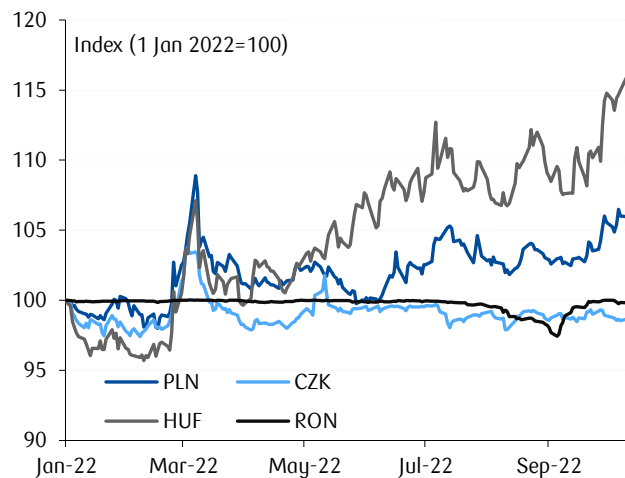
PLN asset swap spread



Global commodity prices (in PLN)

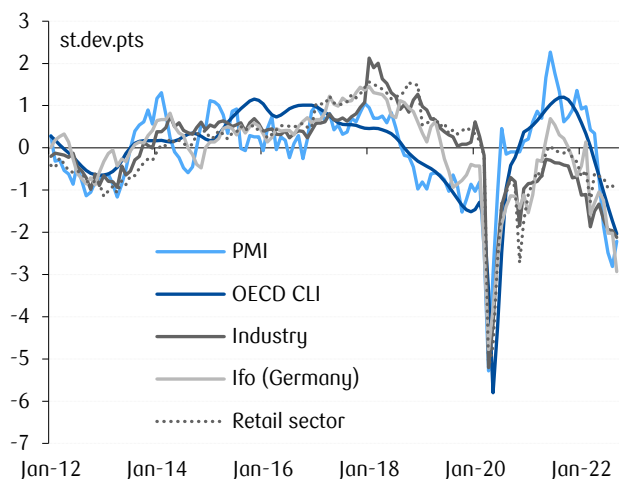


Selected CEE exchange rates against the EUR

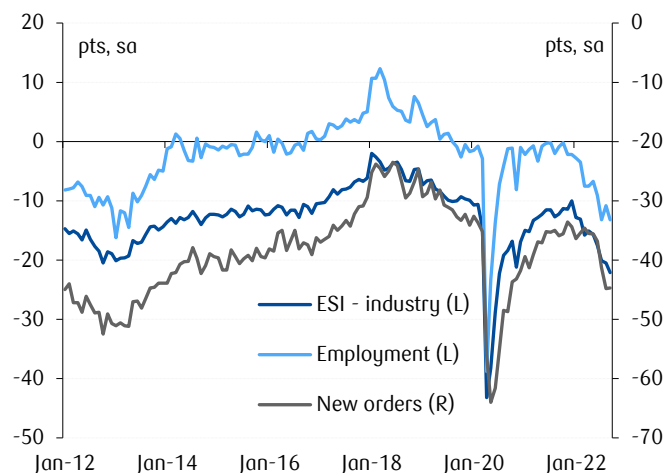


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

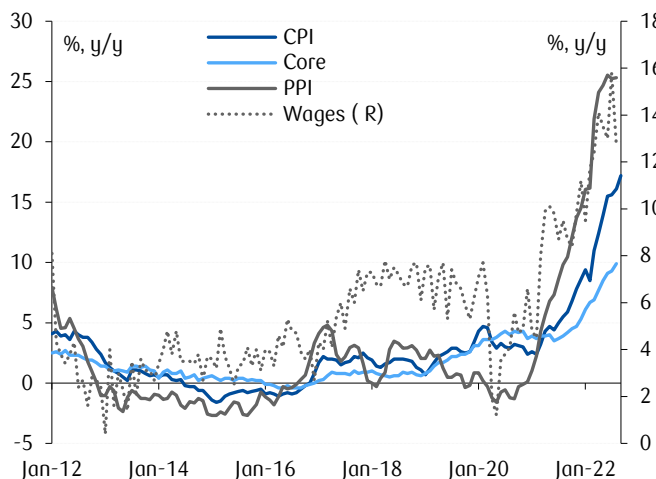
Economic sentiment indicators



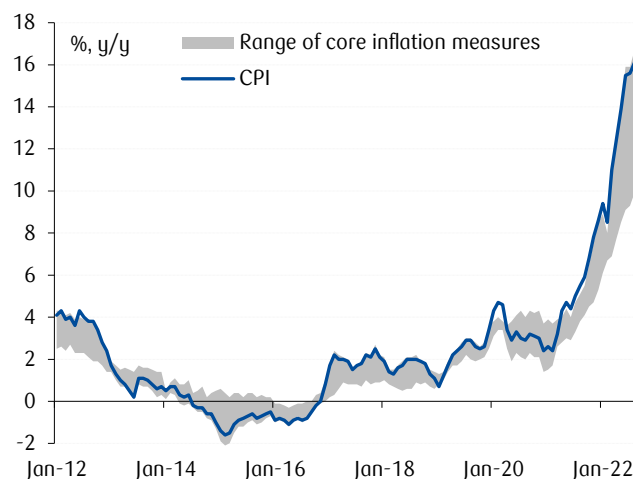
Poland ESI for industry and its components



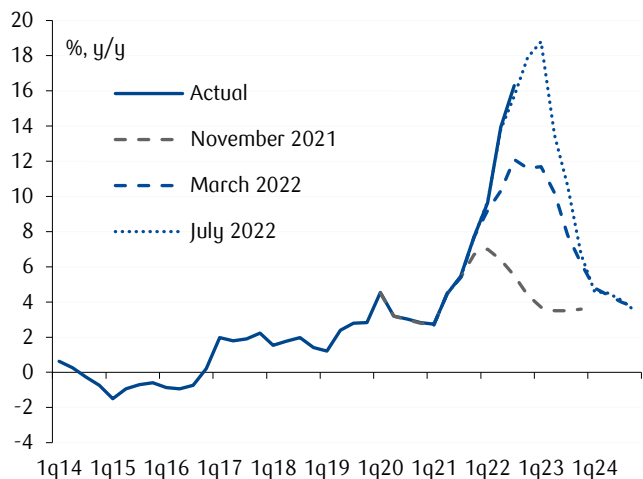
Broad inflation measures



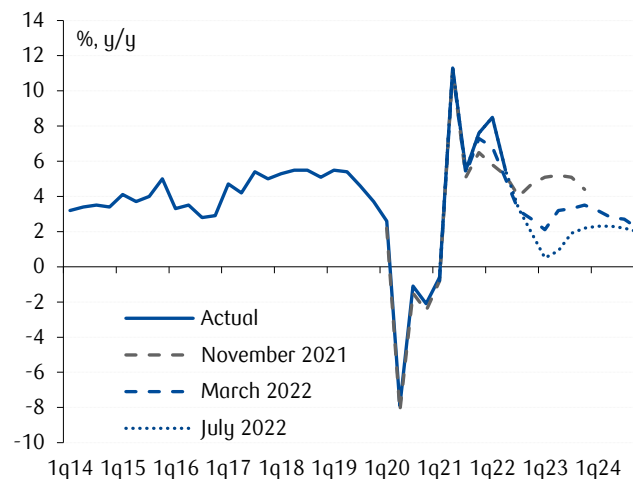
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

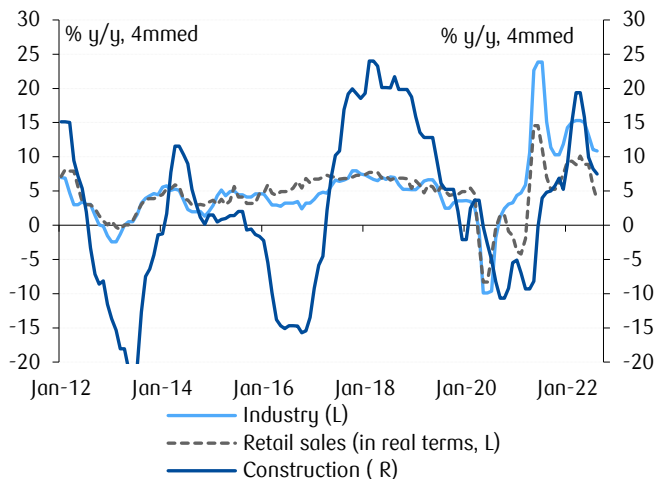


Real GDP growth – NBP projections vs. actual

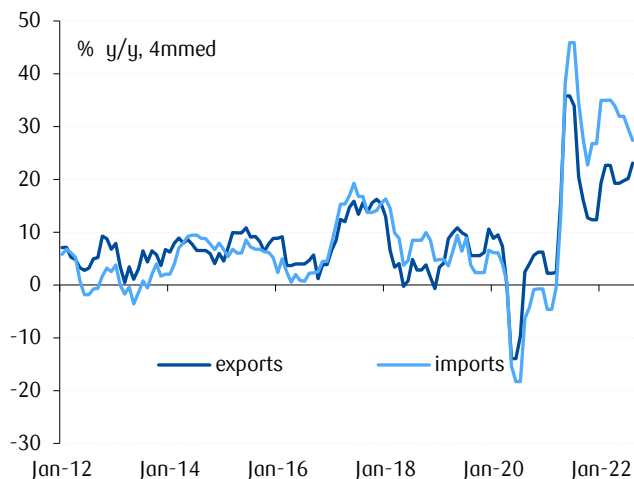


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

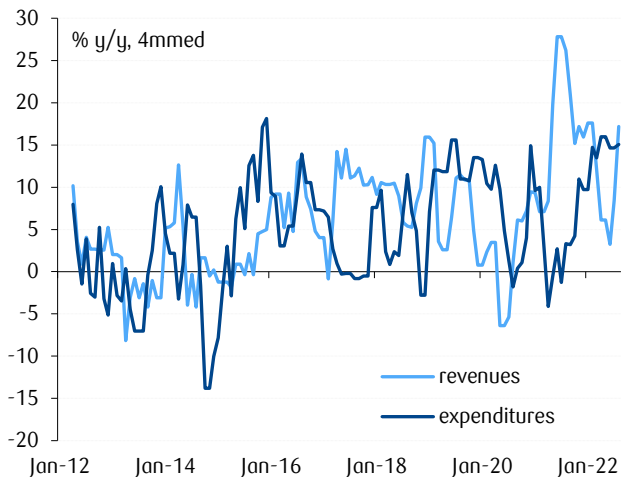
**Economic activity indicators**



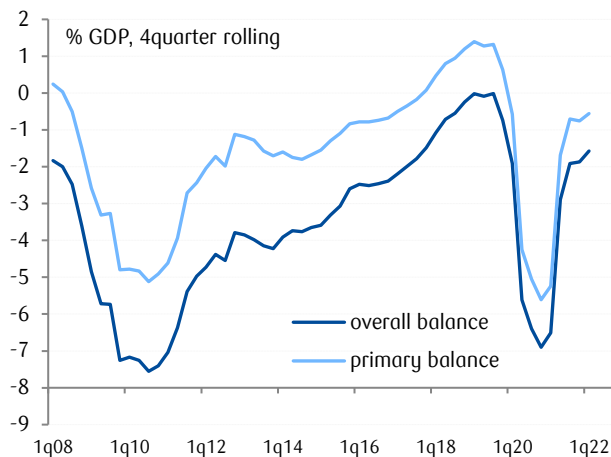
**Merchandise trade (in EUR terms)**



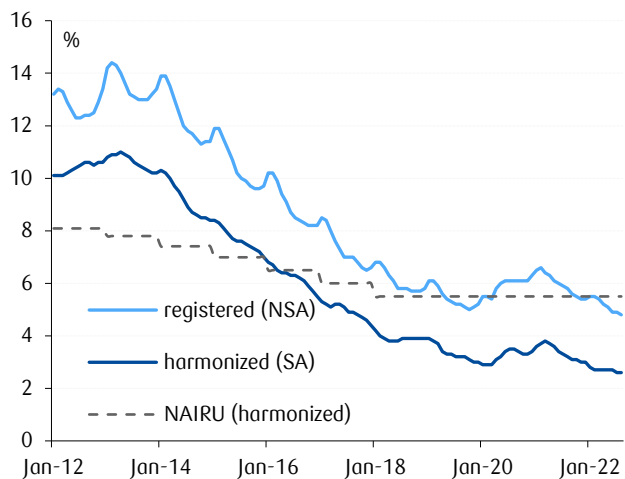
**Central government revenues and expenditures\***



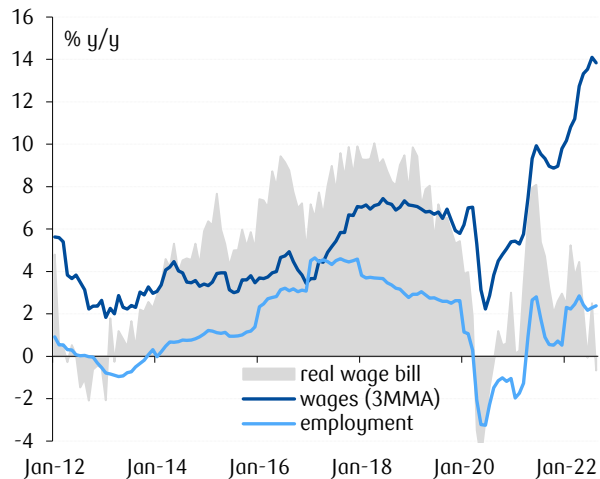
**General government balance (ESA2010)**



**Unemployment rate**

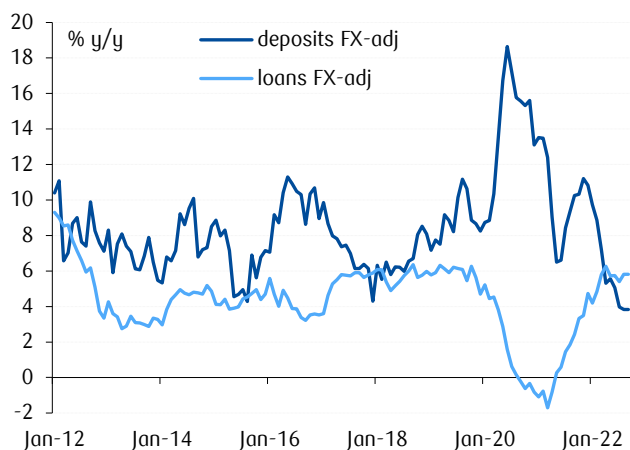


**Employment and wages in the enterprise sector**

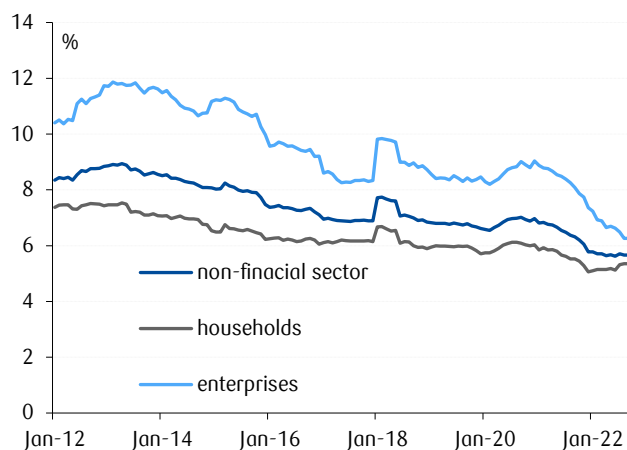


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

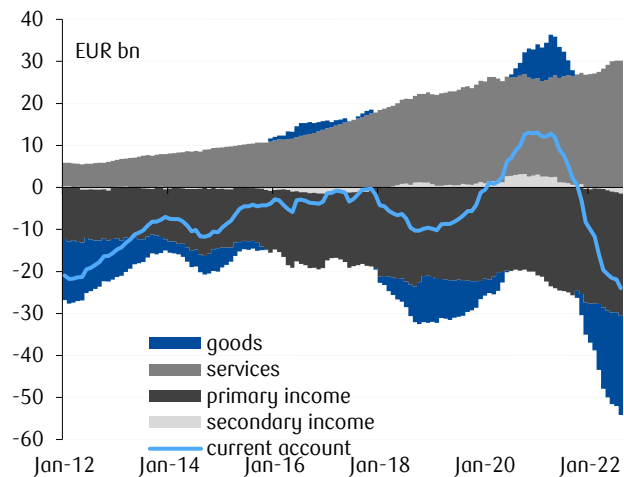
### Loans and deposits



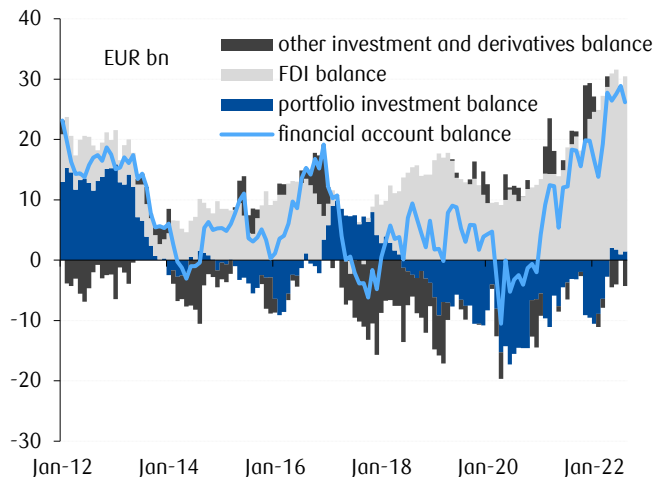
### Non-performing loans (NPLs) - by sectors\*



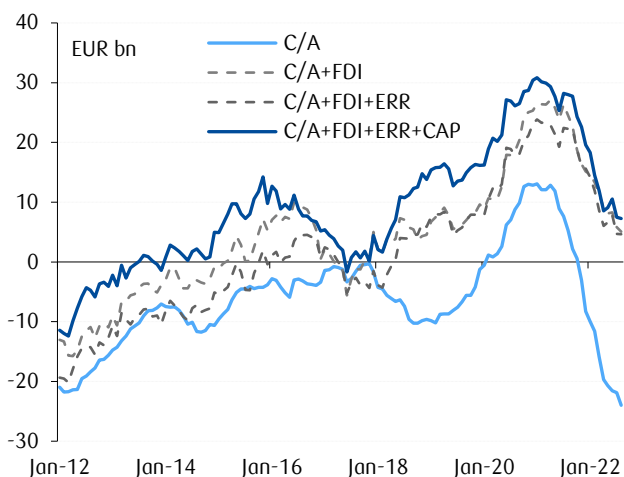
### Current account balance



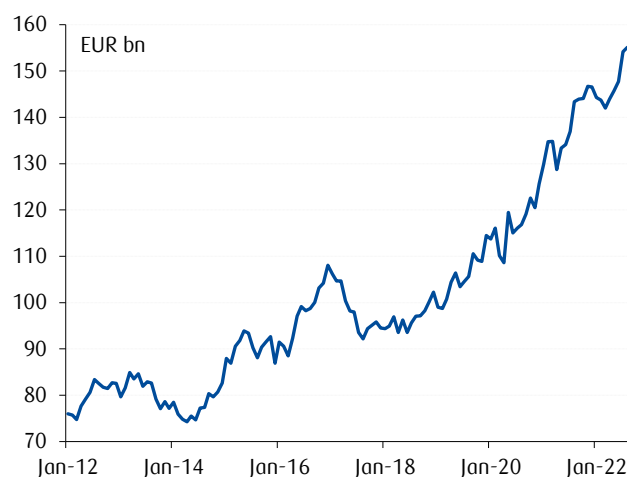
### Financial account balance



### 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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- [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)
- [Inflation sparked investments?](#) (Sep 2, 2022)
- [Costs jump, deals slow](#) (Aug 26, 2022)
- [It's payback time](#) (Aug 19, 2022)
- [Inflation seems to be losing steam](#) (Aug 12, 2022)
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- [Turning point?](#) (Jul 15, 2022)
- [Inflation vs recession dilemma](#) (Jul 8, 2022)
- [NBP rate hikes coming to an end](#) (Jul 1, 2022)
- [Dry loan tap has frozen the market](#) (Jun 24, 2022)
- [A bitter pill of interest rate hikes](#) (Jun 10, 2022)
- [Growth borrowed from the future](#) (Jun 3, 2022)
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