

## Corporate profits dwindle, margins narrow

### TOP MACRO THEME(S):

- **Corporate profits dwindle, margins narrow (p.2):** “Costs jump, deals slow” story heralded by us in late Aug22 keeps materializing. Indeed, lack of ability to slash input costs significantly, combined with faltering demand, resulted in corporate margins reduction for the second quarter in a row. Energy shock has induced a new wave of investment demand – nominal value of energy sector projects kicked-off in 4q22 almost doubled, indicating that investments and GDP growth will benefit from them next year.

### WHAT ELSE CAUGHT OUR EYE:

- **Incoming monthly data confirm our 1q23 GDP growth rate forecast (-0.6% y/y) and its structure** (consumers in a recession amid a moderate investment demand). Indeed, industry and retailers suffered a setback in February amid contraction of real output and a shake-up of retail sales, while construction output held up pretty well despite lingering housing market. An improvement of deposits growth rate in February as well as declining consumer and mortgage lending also reflected consumer demand woes. Last but not least, producer prices inflation in February eased somewhat signalling that consumer prices will follow suit soon.
- **Moody’s will most likely leave Poland’s rating and its perspective unchanged today.**

### THE WEEK AHEAD:

- **CPI inflation** most likely run cooler in March, diving below a 16 per cent mark on our estimates.

### NUMBER OF THE WEEK:

- **-4.7% y/y** – growth rate of corporate wages in February, adjusted for inflation.

### Chief Economist

Piotr Bujak  
piotr.bujak@pkobp.pl  
+48 693 333 127

### Macro Research Team

[@PKO\\_Research](#)

Marta Petka-Zagajewska  
Senior Economist  
marta.petka-zagajewska@pkobp.pl  
tel. +48 22 521 67 97

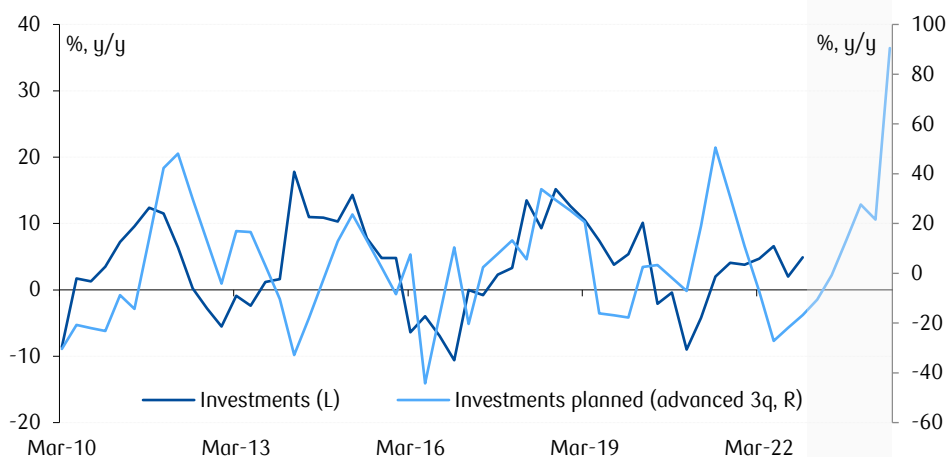
Urszula Krynska  
Economist  
urszula.krynska@pkobp.pl

Kamil Pastor  
Economist  
kamil.pastor@pkobp.pl

Michal Rot  
Economist  
michal.rot@pkobp.pl

Anna Wojtyniak  
Economist  
anna.wojtyniak@pkobp.pl

### CHART OF THE WEEK: Corporate investments vs investment plans



Source: GUS, PKO Bank Polski.

	2022	2023 <sup>†</sup>
Real GDP (%)	4.9	0.1
Industrial output (%)	10.4	3.9
Unemployment rate <sup>#</sup> (%)	5.2	5.4
CPI inflation <sup>**</sup> (%)	14.3	11.9
Core inflation <sup>**</sup> (%)	9.0	9.7
Money supply M3 (%)	5.4	6.4
C/A balance (% GDP)	-3.1	-2.2
Fiscal balance (% GDP) <sup>*</sup>	-3.0	-6.0
Public debt (% GDP) <sup>*</sup>	51.5	53.6
NBP reference rate <sup>###</sup> (%)	6.75	6.25
EURPLN <sup>###</sup>	4.69	4.62

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

## Corporate profits dwindle, margins narrow

- “Costs jump, deals slow” story heralded by us in late Aug22 keeps playing out. Indeed, lack of ability to slash input costs significantly combined with faltering demand resulted in corporate margins reduction a second quarter in a row.
- Energy shock has induced a new wave of investment demand – nominal value of energy sector projects kicked-off in 4q22 almost doubled indicating that investments and GDP growth will benefit from them next year.

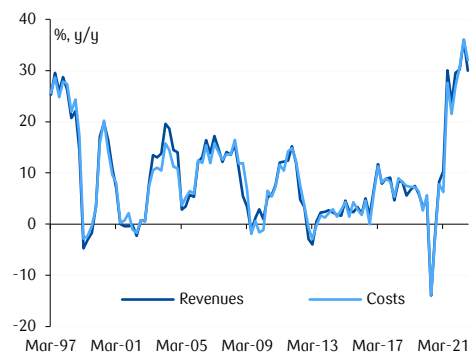
Faltering demand in 2h22 as well as limited possibilities to significantly slash input costs confirmed that our “costs jump and deals slow” story keeps materializing. (see also Poland Macro Weekly “[Costs jump, deals slow](#)”, Aug 26, 2022). Indeed, corporate revenues in 4q22 expanded by 16.8% y/y (vs. 30.0% y/y in 3q22), again below corporate costs growth rate, which stood at 17.7% y/y in 4q22 (vs. 32.1% y/y in 3q22). As a result, aggregate net profits were reduced by 2.7% y/y and amounted to PLN 59.1 bn (or 2.0% of GDP, unchanged from 3q22). Return on sales also declined, to 4.2% (i.e. -0.8pp y/y; -0.3pp q/q).

The data also confirmed that corporate margins eroded throughout the second half of 2022. Declining margins affected most sectors of the economy. A significant reduction in sales profitability in 2022 was recorded in the IT industry (ROS at 7.4%; -7.8pp y/y), which can be related to a large share of payroll costs. Energy sector profitability suffered from commodity price spike (4.2%; -2.7pp y/y), Mining, on the other hand, significantly improved profitability on rising coal prices (16%; +8.3pp y/y). HoReCa results also improved (9.1%; +3.8pp y/y).

It is also noteworthy that the share of payroll costs in total costs fell to 13.6% (-1.4pp y/y), despite corporate wages expanding at a double-digit pace in 4q22. This also confirms our long-held view that price-wage spiral is still limited/absent. Within total costs structure, costs related to the consumption of materials and energy increased substantially, accounting for 49.9% of total costs (+4.7pp y/y), with energy consumption alone accounting for 3.3% of costs.

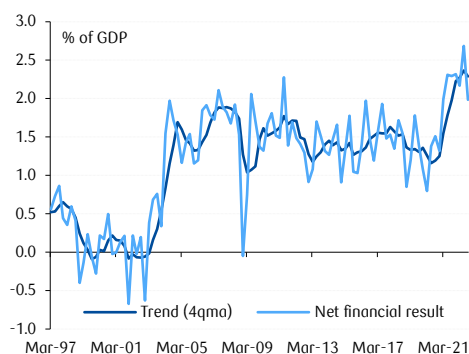
Rising energy bills induced energy-efficiency related investments. Indeed, in 4q22, corporate investments recovery continued - investments (in constant prices) increased by 8.6% y/y (vs. 5.8% y/y in 3q22), amid rising spending on machinery and equipment (by 8.7% y/y). Moreover, given the challenges related to energy (including energy price spike and geographical reorientation of supply chains in 2022), energy sector in Poland responded with a substantial investment demand. Nominal value of energy sector investment plans, that were kicked-off in 4q22, almost doubled. This will gradually filter into the aggregate demand boosting investment and GDP growth next year (see margin chart). Last but not least, easing supply chain tensions in automotive industry unleashed spending on transport equipment, which expanded by 24% y/y in 4q22.

### Corporate revenues and costs



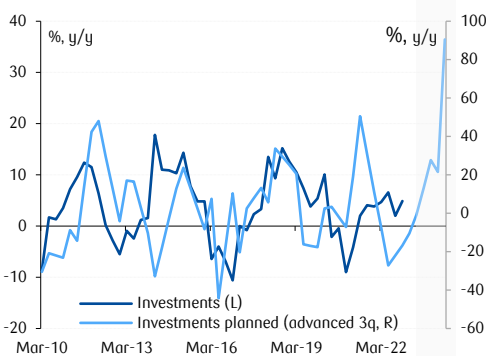
Source: GUS, PKO Bank Polski.

### Net financial result



Source: GUS, PKO Bank Polski.

### Corporate investments vs investment plans



## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Monday, 27 March</b>						
GER: Ifo Business Climate Index (Mar)	9:00	pts.	91.1	91.0	--	--
EUR: M3 money supply (Feb)	9:00	% y/y	3.5	3.2	--	--
GER: Retail sales (Feb)	7:00	% y/y	-4.6	-5.4	--	--
<b>Tuesday, 28 March</b>						
HUN: MNB meeting	13:00	%	13.00	13.00	13.00	--
USA: Trade Balance (Feb)	13:30	bn USD	-91.5	-90.0	--	--
USA: S&P CoreLogic CS 20-City (Jan)	14:00	% y/y	4.65	--	--	--
USA: Consumer confidence (Mar)	15:00	pts.	102.9	101.5	--	--
<b>Wednesday, 29 March</b>						
CZE: Central bank meeting	13:30	%	7.00	7.00	7.00	--
<b>Thursday, 30 March</b>						
EUR: Consumer Confidence (Mar, fin.)	10:00	pts.	-19.0	-19.2	--	--
EUR: Economic Sentiment Indicator (Mar)	10:00	pts.	99.7	99.4	--	--
GER: CPI inflation (Mar, flash)	13:00	% y/y	8.7	7.6	--	--
GER: HICP inflation (Mar, flash)	13:00	% y/y	9.3	8.0	--	--
USA: Initial Jobless Claims	13:30	thous.	191	--	--	--
USA: GDP growth (4q)	13:30	%q/q saar	2.7	2.7	--	--
USA: Personal consumption (4q)	13:30	%q/q saar	1.4	--	--	--
<b>Friday, 31 March</b>						
GER: Unemployment Rate (Mar)	8:55	%	5.5	5.5	--	--
<b>POL: CPI inflation (Mar, flash)</b>	<b>9:00</b>	<b>% y/y</b>	<b>18.4</b>	<b>15.9</b>	<b>&lt;16.0%</b>	<b>Base effects will drag down the headline CPI figure.</b>
EUR: CPI inflation (Mar)	10:00	% y/y	8.5	7.3	--	--
EUR: Core inflation (Mar, flash)	10:00	% y/y	5.6	5.8	--	--
USA: Personal Income (Feb)	13:30	% m/m	0.6	0.3	--	--
USA: Personal spending (Feb)	13:30	% m/m	1.8	0.3	--	--
USA: PCE Deflator (Feb)	13:30	% y/y	5.4	5.1	--	--
USA: Core PCE inflation (Feb)	13:30	% y/y	4.7	4.7	--	--
USA: Uni.Michigan sentiment (Mar, fin.)	15:00	pts.	67.0	63.4	--	--

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	"Maybe we hit the upper band of deviations from the target around 2h2025, assuming unchanged interest rates at 6.75%. (...) Does this projection justify keeping interest rates unchanged? In my opinion it does not. (...) Right now I find it irresponsible to discuss interest rate cuts"(10.03.2023, PAP, PKO transl.)
L. Kotecki	4.8	"If we would like to believe in the projection of NBP analysts, there are no conditions for lowering interest rates today, until there are more projections that show that such conditions exist. Today there are no conditions until the end of this projection period, i.e. until the end of 2025, because we still do not reach the inflation target. (...) What raises my concern is that inflation still does not show significant, lasting signs of weakening (...) In my opinion, we are moving away from a certain promise that some Council members make that inflation may be in the single digits in December." (16.03.2023, PAP)
P. Litwiniuk	3.7	<b>"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,"</b> (22.03.2023, gazeta.pl, PAP)
H. Wnorowski	2.7	"Disinflation of core inflation should accelerate. In several months core inflation should fall at the same speed as the CPI" (10.03.2023, PAP)
A. Glapinski	2.4	"NBP expects brisk return of inflation to the target. This year it will reach a single-digit figure, by the end of 2023 it will be slightly above 7%. (...) NBP leaves the door open for interest rate hikes. We will begin to cut interest rates, only when there will be certainty that inflation is falling towards the inflation target. (...) In February there will be a peak of inflation at around 18.5% (...) Threats to CPI remain, therefore we do not conclude the tightening cycle. MPC will not tolerate disruptions in the disinflation process. I hope that in the last quarter of 2023 interest rate cuts will be possible."(9.03.2023, NBP press conf., PAP, PKO transl.)
C. Kochalski	2.4	"In the light of the current data the level is adequate. The MPC has not been raising rates since September as we have many cues indicating the impact of previously passed hikes They have already started to work. They lowered inflation by 0.5 pps this year, in 2023 it will be 3 pps." (13.12.2022, Biznes24, PAP).
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	<b>"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"</b> (20.02.2023, PAP)
I. Dabrowski	1.9	"A strong slowdown in inflation seems to be ahead of us. Therefore, single-digit inflation at the end of the year is very likely(...)" (20.01.2023, TVP Info, PAP, PKO transl.)

\*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.

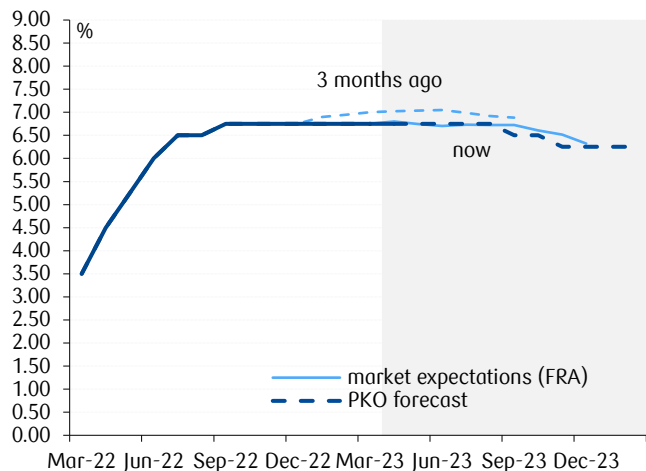
### Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	23-Mar	23-Apr	23-May	23-Jun	23-Jul	23-Aug	23-Sep	23-Oct	23-Nov	23-Dec
WIBOR 3M/FRA†	6.90	6.90	6.85	6.79	6.73	6.68	6.63	6.51	6.37	6.18
implied change (b. p.)		0.00	-0.05	-0.12	-0.17	-0.22	-0.28	-0.39	-0.53	-0.73
MPC Meeting	8-Mar	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	6.50	6.50	6.25	6.25
market pricing^		6.75	6.70	6.64	6.58	6.53	6.48	6.46	6.37	6.18

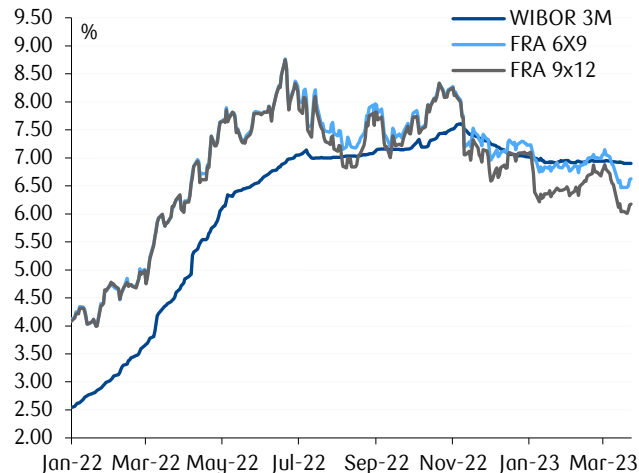
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

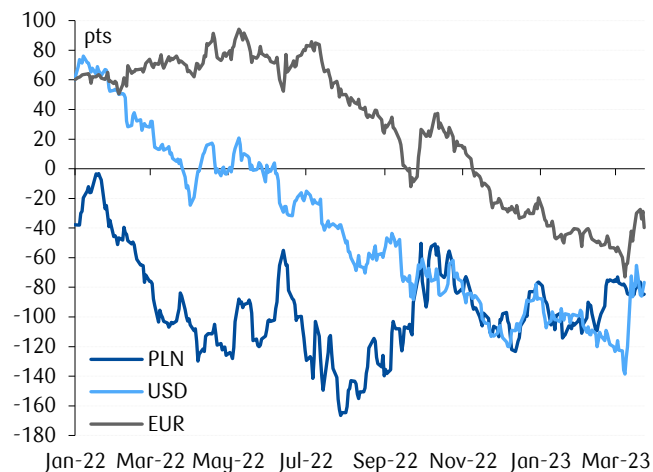
NBP policy rate: PKO BP forecast vs. market expectations



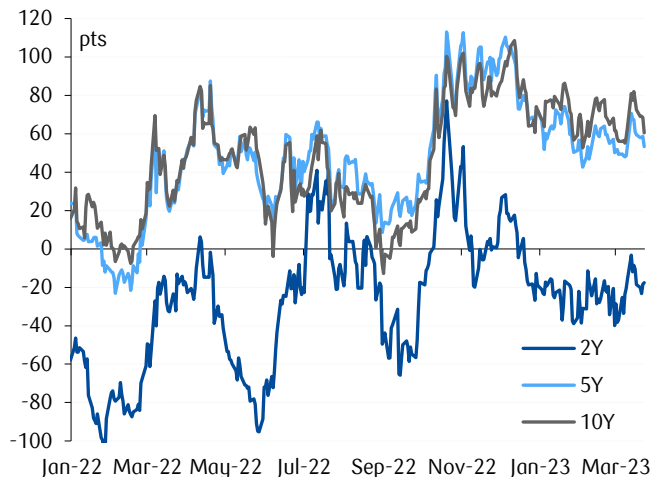
Short-term PLN interest rates



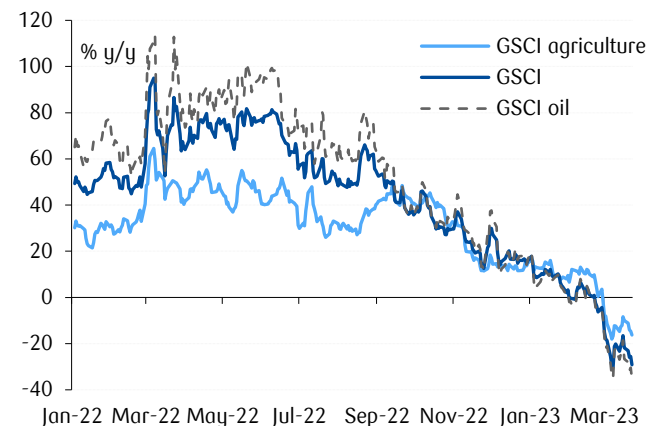
Slope of the swap curve (spread 10Y-2Y)\*



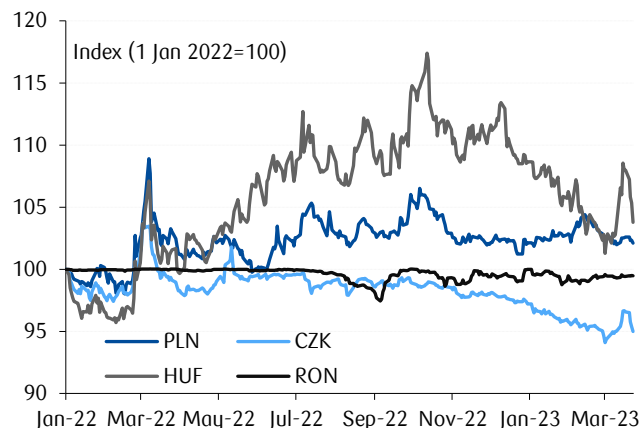
PLN asset swap spread



Global commodity prices (in PLN)

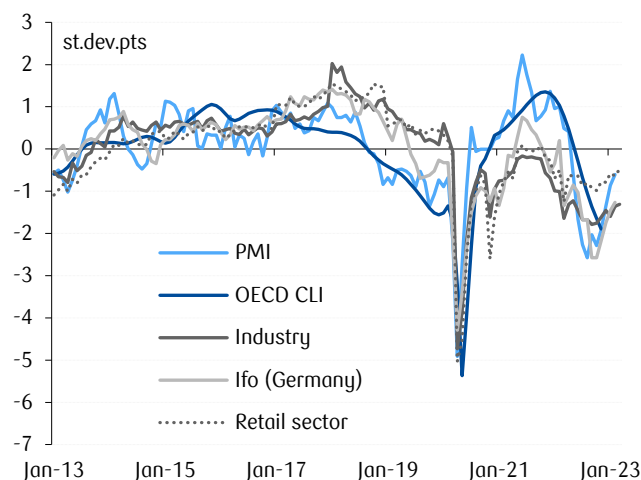


Selected CEE exchange rates against the EUR

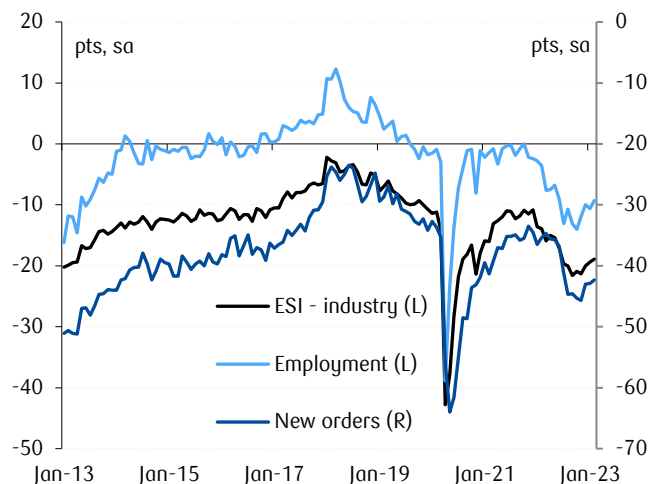


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

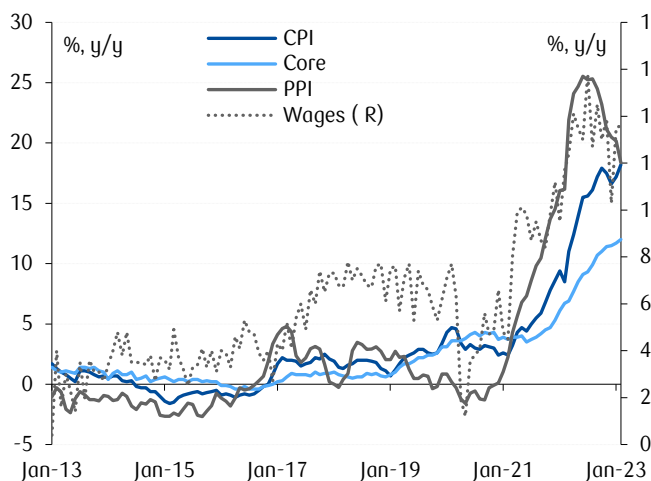
Economic sentiment indicators



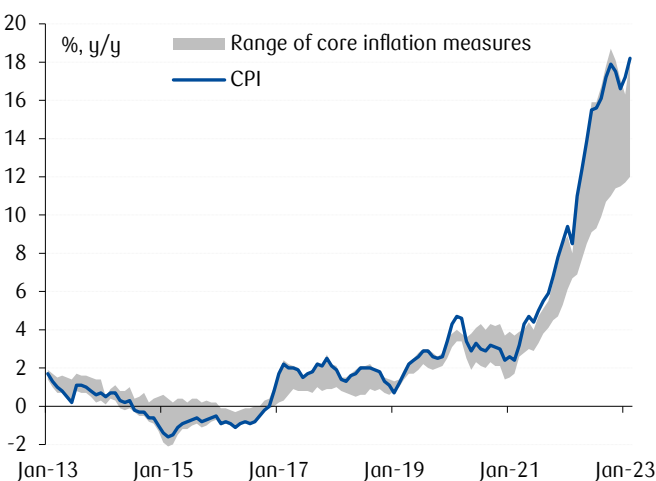
Poland ESI for industry and its components



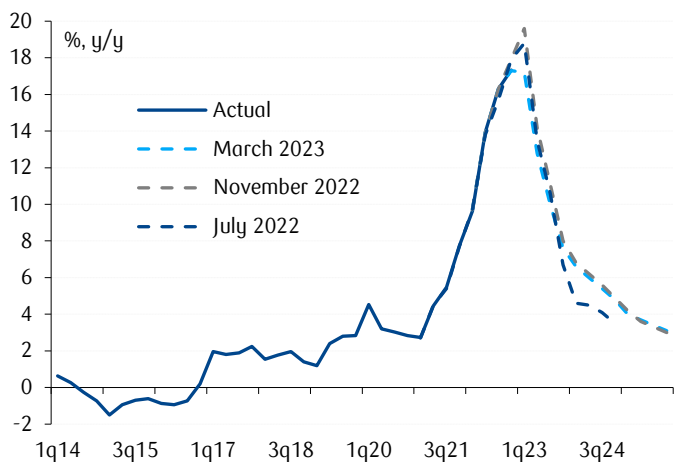
Broad inflation measures



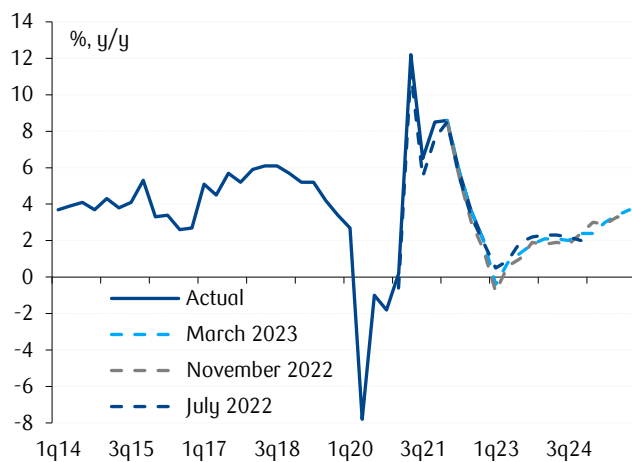
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

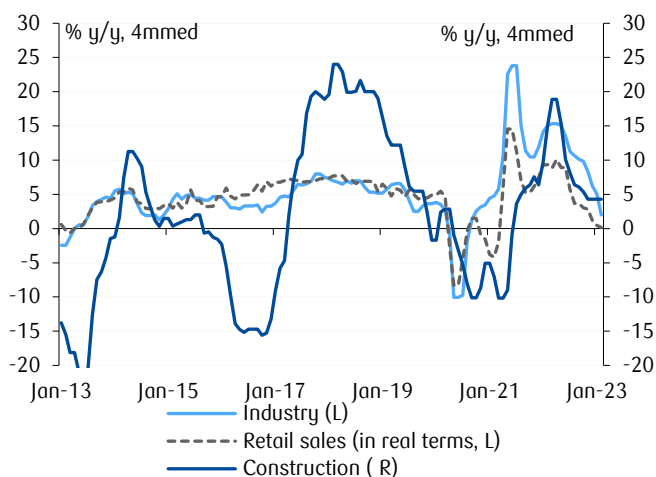


Real GDP growth - NBP projections vs. actual

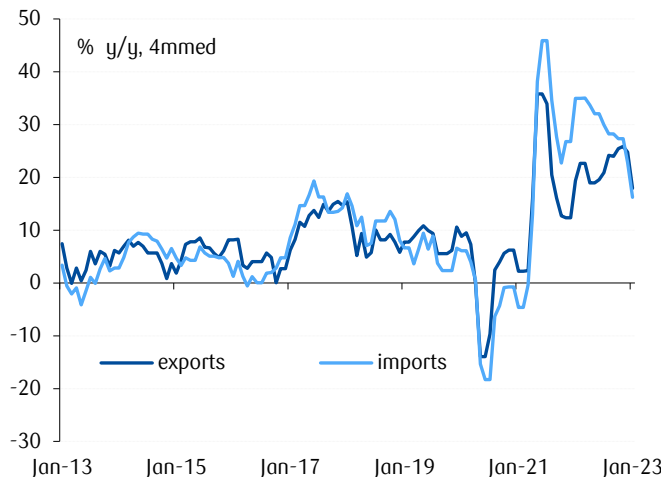


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

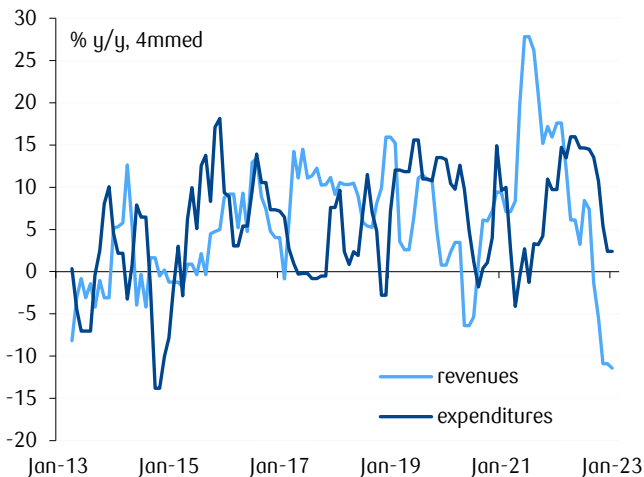
**Economic activity indicators**



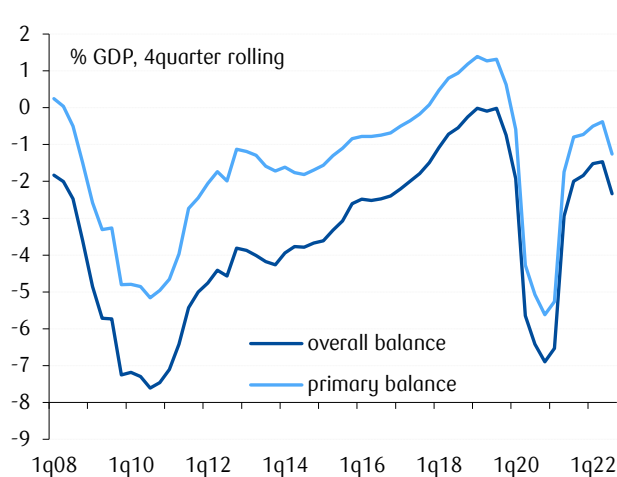
**Merchandise trade (in EUR terms)**



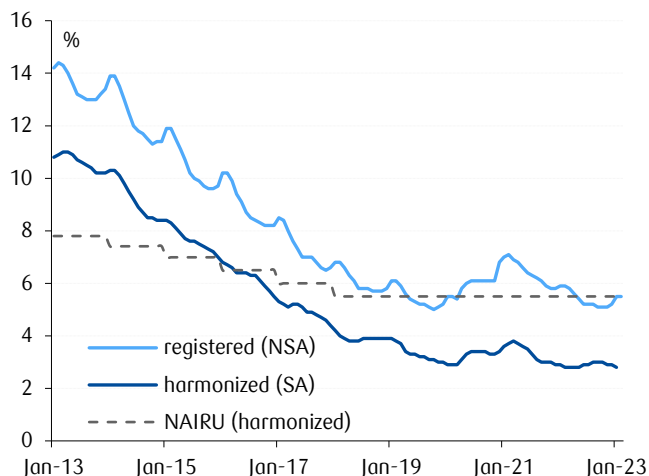
**Central government revenues and expenditures\***



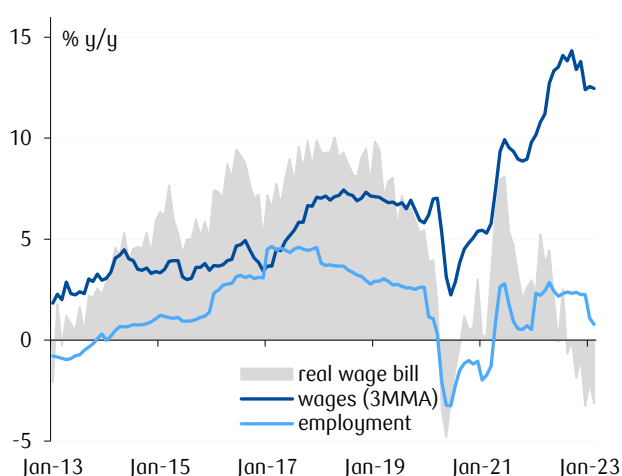
**General government balance (ESA2010)**



**Unemployment rate**

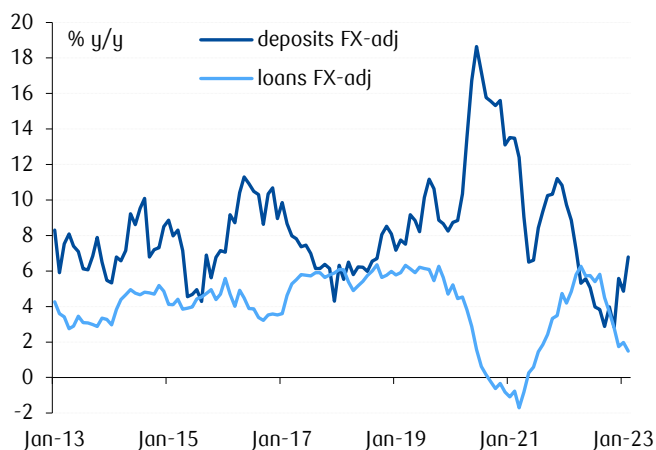


**Employment and wages in the enterprise sector**

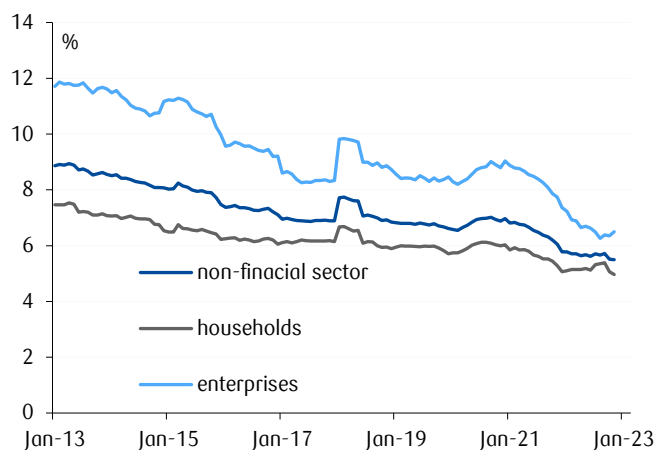


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

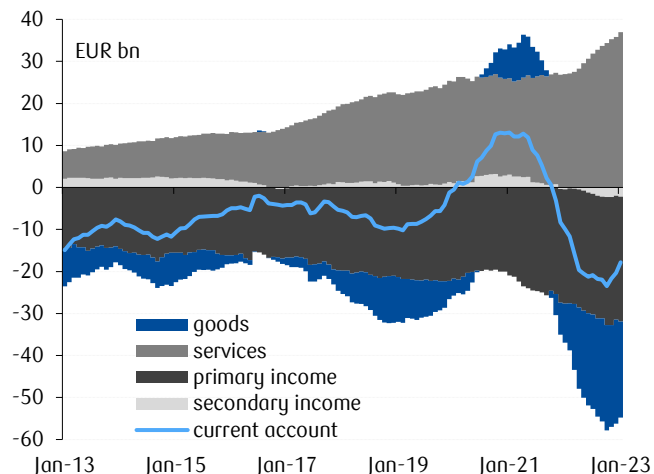
### Loans and deposits



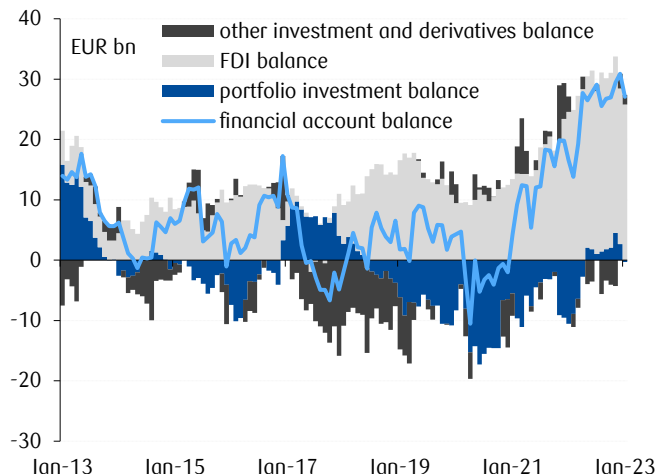
### Non-performing loans (NPLs) - by sectors\*



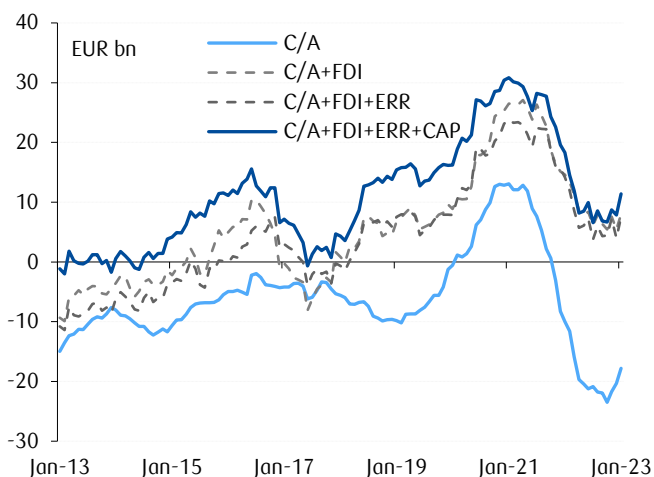
### Current account balance



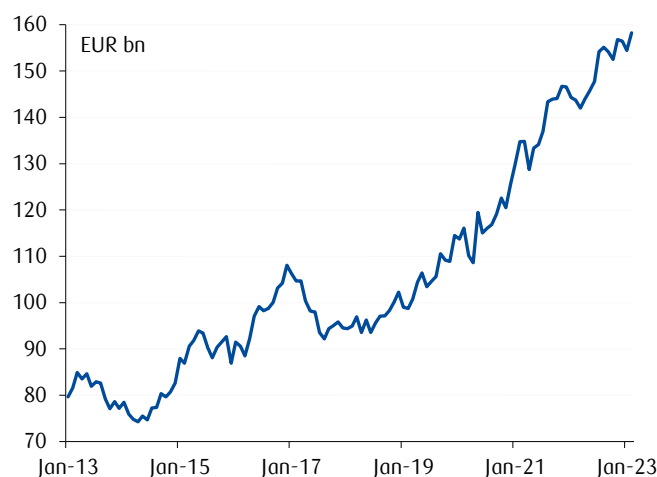
### Financial account balance



### 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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- [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)
- [Happy 2023!](#) (Jan 13, 2023)
- [2023 in preview](#) (Dec 23, 2022)
- [Housing market: The worst is over](#) (Dec 16, 2022)
- [All quiet on the monetary policy front](#) (Dec 9, 2022)
- [Disinflation ahead](#) (Dec 2, 2022)
- [Corporate profits shrink](#) (Nov 25, 2022)
- [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)
- [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)
- [Prepare\(d\) for slowdown](#) (Aug 5, 2022)
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- [Slowdown just ahead](#) (Jul 22, 2022)

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