

Corporate profits shrink

TOP MACRO THEME(S):

- **Corporate profits shrink (p. 2):** Intensified cost pressure and growing barriers on the demand side led to a deterioration of corporate profits in 3q22. Corporate profits share in national income most likely held up well another quarter in a row. Inventories, after a period of massive build-up, crossed a tipping point and started to exert pressure on corporate liquidity.
- **Tough start into the fourth quarter (p. 4):** Monthly data for October (industry, construction, sales) indicate that the beginning of 4q22 was difficult and marked by growing pressure from falling real incomes of households. The data may reinforce the MPC's view of a disinflationary impact of the economic slowdown and its decision to suspend the interest rate hikes cycle at 6.75%.

WHAT ELSE CAUGHT OUR EYE:

- **State budget sported a surplus** of PLN 27.3bn after October and is on a good track to meet its expected outturn as per 2023 budget bill (approx. PLN 23bn). Should some expenditures be accelerated and moved from 2023 into 2022 (in the same magnitude as in previous years), the state budget deficit may reach PLN 50bn at end-2022. This move would, however, require a parliamentary consent to update the 2022 budget bill.
- **Broad money (M3) supply** growth slowed down to 7.0% y/y in October (vs 7.7% y/y in September), while real M1 plummeted further, by almost 25% y/y. Data is indicative of incoming slowdown, mostly on the consumer side – consumer loans declined in October, while (PLN denominated) mortgage loans grew by only 1.1% y/y.

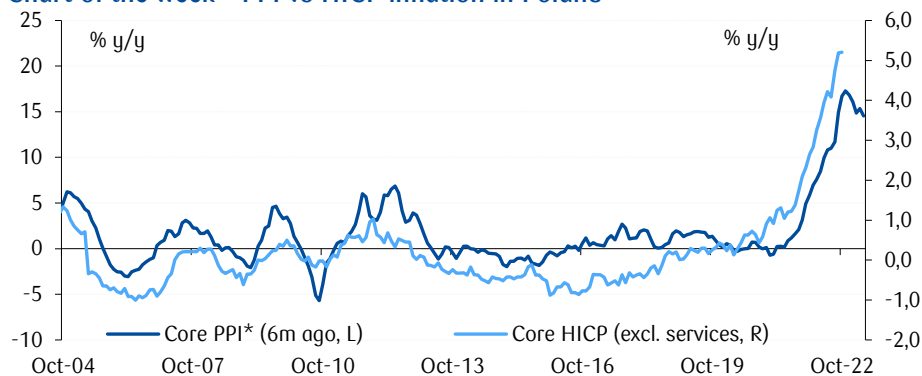
THE WEEK AHEAD:

- **Detailed GDP figures for 3q22 will be revealed on Wednesday.** We estimate that both private consumption and investment demand moderated in 3q22 (PKOe: 1.6% y/y and 4.2% y/y, respectively). It is also likely that contribution of inventories to GDP growth retreated further from the all-time high in 1q22.
- **CPI inflation in November said 'enough'** and inched down on fuel prices – on our early estimate – but food prices could be a major factor of upside surprise.
- **Manufacturing PMI in November** most likely increased on improvement in automotive supply chains, but it is still well below the neutral level.

NUMBER OF THE WEEK:

- **7%** - Poland's yield curve dived below 7% in all tenors, first time since late September.

Chart of the week – PPI vs HICP inflation in Poland



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	2021	2022 [†]
Real GDP (%)	6.8	4.3
Industrial output (%)	15.6	10.3
Unemployment rate [#] (%)	5.4	5.2
CPI inflation ^{**} (%)	5.1	14.4
Core inflation ^{**} (%)	4.1	9.0
Money supply M3 (%)	8.9	5.8
C/A balance (% GDP)	-1.4	-4.2
Fiscal balance (% GDP)*	-1.9	-2.1
Public debt (% GDP)*	53.8	50.7
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.

Corporate profits shrink

- Intensified cost pressure and growing barriers on the demand side led to a deterioration of corporate profits in 3q22.
- Corporate profits share in national income most likely held up well another quarter in a row.
- Inventories, after a period of massive build-up, crossed a tipping point and started to exert pressure on corporate liquidity.

Intensified cost pressure and growing barriers on the demand side led to a deterioration of corporate profits in 3q22 – revenues expanded at a slower pace than costs (revenues: 30.0% y/y; costs: 32.2% y/y, chart 1). As a result, corporate profits retreated from the record-high reached in 2q22, declining to PLN 56.8 bn in 3q22. The record-high profits-to-GDP ratio also shrunk, from (annualized) 10.7% in 2q22 to 7.8% in 3q22 (chart 2).

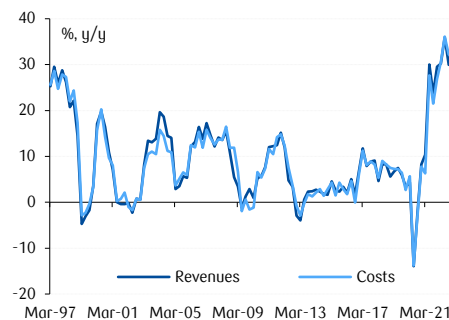
It is noteworthy that the corporate sales profitability, generally moving in a tandem with nominal GDP growth (chart 3, please note nominal GDP growth rate for 3q22 is a PKO estimate), performed even better in 3q22 (in 4q mov.avg. terms). Thus corporate profits share in national income most likely held up well another quarter in a row. In other words, despite double-digit wages growth rates, corporate sector defended its share in national income. Moreover, anecdotal evidence suggests that in some sectors some “window dressing” might have partially affected corporate costs in 3q22 as CFOs reacted to windfall tax rumors by pumping up costs a bit.

Inventories, after a period of massive build-up, crossed a tipping point. In 3q22, its growth rate inched down for the first time in two years, but a reduction was much smaller than the decline in nominal GDP growth rate (chart 4). The structure of inventories build-up (chart 5) suggests that stocks of finished goods has been reduced. Thus it is likely that *just-in-case* production and inventory model is still at play and corporations have reached a sufficient inventory level to follow it. This has some further implications: there is no need for additional massive inventory build-up, which will reduce both price pressure as well as imports – this wave of inventory accumulation was pretty import-intensive.

A massive inventories build-up started impinge upon corporate liquidity. Indeed, the liquidity ratios followed the working capital loans path (chart 6), heading south. A massive working capital loans growth eased somewhat in 3q22 (with approx. 20%-ish growth rates), but it still suggests that there might be a liquidity problem ahead, should the demand backdrop materialize. Working capital loans growth rate dived below one from 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.

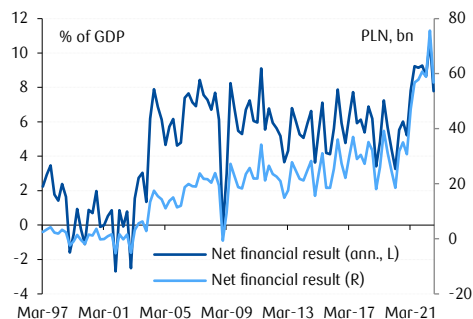
Corporate investments in 3q22 increased by 5.8% y/y (vs. 7.9% y/y in 2q22, in real terms, chart 7). The data on investment demand is in line with our estimate of total investment in 3q22 (PKO and cons.: 4.2% y/y) and fits into our baseline scenario – investment demand after the pandemic is still moderate at best. That said, rebounding value in corporate investment plans suggest that there is still a chance for soft landing (chart 8).

1. Corporate* revenues and costs



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

2. Corporate* net financial result

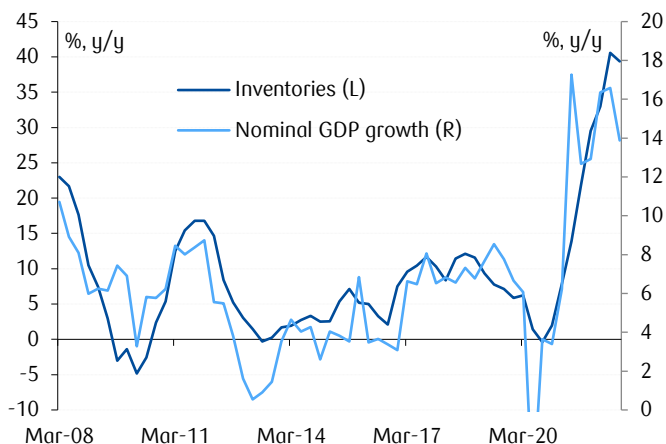


Source: GUS, PKO Bank Polski. *with 50+ employment.

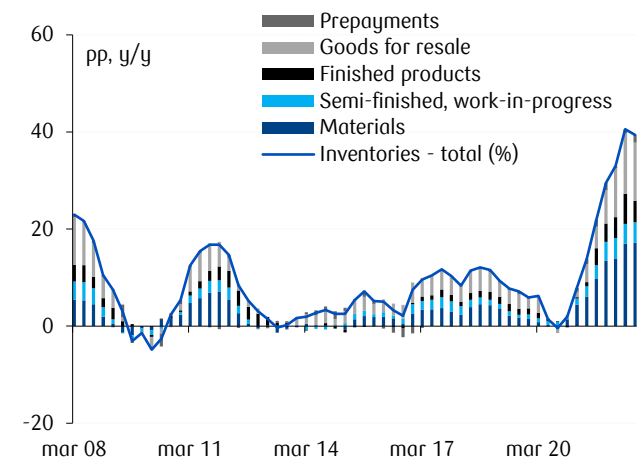
3. Corporate sales* profitability



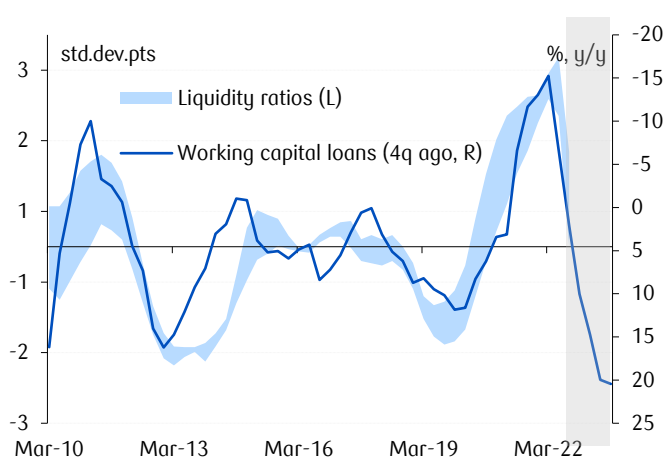
4. Corporate* inventories vs nominal GDP growth



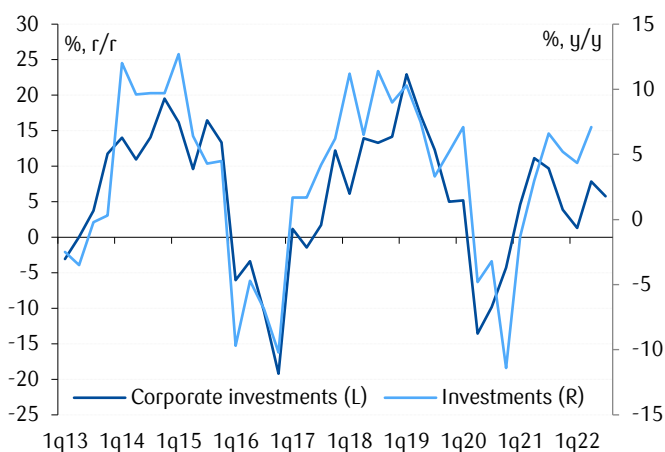
5. Structure of corporate* inventories growth



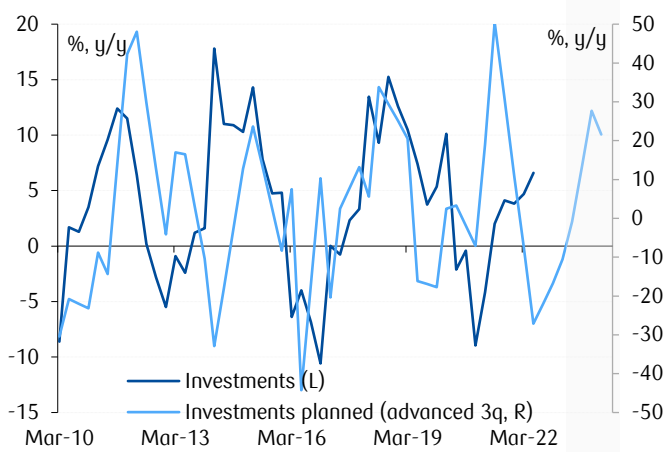
6. Range of liquidity ratios vs working capital loans



7. Corporate* vs total investments



8. Investments vs corporate* investment plans



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

Tough start into the fourth quarter

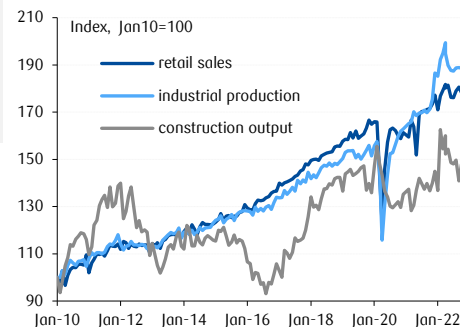
- Monthly data for October (industry, construction, sales) indicates that the beginning of 4q22 was difficult and came under growing pressure from falling real incomes of households. The data may reinforce the MPC's view of the disinflationary impact of economic slowdown and its decision to suspend the interest rate hike cycle at 6.75%.

Below we summarize the first monthly readings for 4q22. The October data surprised mostly to the downside, suggesting some intensification of economic slowdown and delivering early signals of some disinflation ahead.

- **Industrial production growth softened in Oct, to 6.8% y/y from 9.8% y/y in Sep** (s.a. 7.5 % y/y in Oct vs 10.3% y/y in Sep). There are some diverging trends – 1) investment goods production noted once again a double-digit dynamic (due to combination of strong investment demand and export); 2) automotive flourished thanks to easing of supply chains issues in Europe; 3) consumer durables are on a decline due to freezing demand from Poland and EU.
- **PPI inflation decreased in Oct to 22.9% y/y from 24.6% y/y in Sep.** The “core PPI” (PPI in manufacturing ex coke) fell as well, to 14.6% y/y from 15.4% y/y and the downward momentum increased. Consumer prices will also soon follow this trend (leaving aside the disruption from tax changes in early 2023).
- **Construction production accelerated in Oct to 3.9% y/y from 0.3% y/y in Sep.** This improvement is rather a sign of high volatility, we have no doubt that the underlying trend is negative. The housing sector is frozen due to NBP rate increases and deeply negative consumer confidence – in October PLN mortgage loans grew by 1.1% y/y (20+ years min.) and housing starts -40% y/y).
- **Average wages in the corporate sector (10+ emp.) decelerated in Oct to 13.0% y/y from 14.5% y/y in Sep.** The decline partly derives from expiration of bonuses in mining and energetics. Real wages declined by 4.2% y/y – the worst result in the 21. century. We expect that in 1q23, it might even decline by app. 10% y/y. Wage bill decreased materially, despite stronger than expected employment growth (2.4% y/y).
- **Real retail sales in Oct grew only by 0.7% y/y after 4.1 y/y in Sep.** Similar to previous months, sales grew in real terms (% y/y) only in "essential" categories (food, medicine, apparel). Sales in other categories are noticeably declining. The data indicates that declining real income is becoming a significant constraint for private consumption. Retail sales growth may decline below 0 in the coming months, especially after March 2023, when the positive effect on consumption triggered by the influx of refugees will expire.

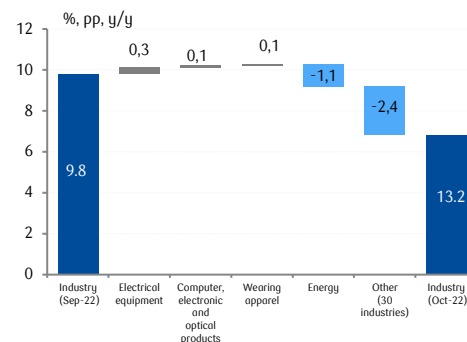
Data for October fit into our baseline scenario for Poland - economic slowdown accompanied by disinflation. Moderation of output growth in industry heralds further slowdown ahead with GDP structure becoming less inflationary. Declining real wage bill in October as well as mediocre retail sales growth rate all point at consumer weakness. Investment demand moves on, amid a moderate expansion of corporate investments after 3q22 as well as a double-digit growth rate of capital goods' output in October. The latter signals that exports continues to be a tailwind for the economy, this time additionally boosted by automotive industry – as an aftermath of supply chains improvement. Last but not least, a clear reversal of the trend in PPI inflation heralds that soon we will also see it in CPI inflation. **Policywise, the data support our scenario for the MPC (pause = end of cycle) with a chance for monetary easing in 2h23.**

1. Monthly economic indicators



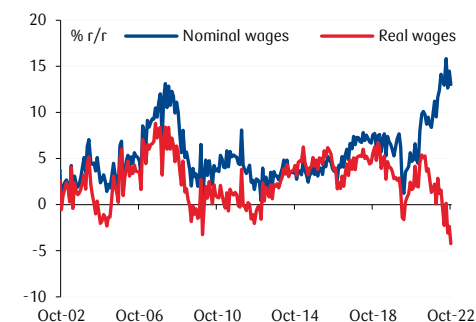
Source: GUS, PKO Bank Polski.

2. Decomposition of industrial production



Source: GUS, NBP, PKO Bank Polski

3. Nominal and real wage dynamics in corporate sector*



Source: GUS, PKO Bank Polski. *with 10+ employment.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 28 November						
EUR: M3 money supply (Oct)	9:00	% y/y	6.3	6.2	--	--
Tuesday, 29 November						
EUR: Economic Sentiment Indicator (Nov)	10:00	pts.	92.5	93.5	--	--
EUR: Consumer Confidence (Nov, final)	10:00	pts.	-27.5	-23.9	--	--
GER: CPI inflation (Nov, flash)	13:00	% y/y	10.4	10.3	--	--
GER: HICP inflation (Nov, flash)	13:00	% y/y	11.6	11.3	--	--
USA: S&P CoreLogic CS 20-City (Sep)	14:00	% y/y	13.1	10.5	--	--
USA: Consumer confidence (Nov)	15:00	pts.	102.5	99.8	--	--
Wednesday, 30 November						
POL: GDP growth (3q)	9:00	% y/y	3.5	3.5	3.5	Growth slowdown reflects inventory cycle payback but domestic demand is also under pressure.
POL: Consumption (3q)	9:00	% y/y	6.4	--	1.6	
POL: Investments (3q)	9:00	% y/y	6.6	--	4.2	
POL: CPI inflation (Nov, flash)	9:00	% y/y	17.9	--	17.6	Inflation likely inched down on fuel prices.
EUR: CPI inflation (Nov)	10:00	% y/y	10.7	10.4	--	--
EUR: Core inflation (Nov, flash)	10:00	% y/y	5.0	--	--	--
USA: ADP National Employment (Nov)	13:15	thous.	239	200	--	--
USA: GDP growth (3q)	13:30	%q/q saar	2.6	2.7	--	--
USA: Personal consumption (3q)	13:30	%q/q saar	1.4	--	--	--
USA: JOLTS Report (Oct)	15:00	thous.	10 717	10 400	--	--
Thursday, 1 December						
CHN: Manufacturing PMI (Nov)	1:45	pts.	49.2	50.0	--	--
POL: Manufacturing PMI (Nov)	8:00	pts.	42.0	--	44.0	Improvements in automotive supply chains should push the activity gauge up but it will remain well below the neutral threshold.
GER: Manufacturing PMI (Nov, final)	8:55	pts.	45.1	46.7	--	
EUR: Manufacturing PMI (Nov, final)	9:00	pts.	46.4	47.3	--	--
USA: Personal Income (Oct)	13:30	% m/m	0.4	0.4	--	--
USA: Personal spending (Oct)	13:30	% m/m	0.6	0.8	--	--
USA: Initial Jobless Claims	13:30	thous.	240	240	--	--
USA: Core PCE inflation (Oct)	13:30	% y/y	5.1	5.0	--	--
USA: ISM Manufacturing (Nov)	15:00	pts.	50.2	49.9	--	--
Friday, 2 December						
GER: Exports (Oct)	7:00	% m/m	-0.5	-0.3	--	--
GER: Imports (Oct)	7:00	% m/m	-2.3	-0.5	--	--
USA: Non-Farm Payrolls (Nov)	13:30	thous.	261	208	--	--
USA: Unemployment Rate (Nov)	13:30	%	3.7	3.8	--	--
USA: Average Earnings (Nov)	13:30	% y/y	4.7	4.6	--	--

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	"In my opinion, lack of interest rates hike [PAP: in November] was a big mistake, for which (...) millions of Poles will pay, paying more in shops and covering higher cost of living each day amid lack of pay rises that would be proportionate to price rise" (15.11.2022, wyborcza.pl, PAP)
L. Kotecki	4.8	"In the nearest future, it seems that there is still room [PAP: for action] on the side of the monetary policy, unfortunately, as the situation is very serious." "The inflation is by far the biggest problem in Poland." (16.11.2022, PAP)
P. Litwiniuk	3.7	"There is still room for some monetary policy tightening to make real interest rates less negative, which would impact expectations of consumers and producers when it comes to inflation level" (21.11.2022, TOK FM, PAP)
H. Wnorowski	2.7	"It seems that if inflation path from the November projection materializes in the coming months and quarters, it is highly likely the pause in the cycle will be continued. (...) if CPI prints turn out higher than the current projection indicates, there is still room for rate hikes (...) In such a situation I could hypothetically picture a return to hikes in 25 bp moves." (22.11.2022, PAP)
A. Glapinski	2.4	"We are not ending the tightening cycle (...) For now, the MPC is in the wait-and-see mode (...) As for any future loosening, discussion on timing seems premature." (10.11.2022, NBP press conference, PAP)
C. Kochalski	2.4	"The base scenario is such that the current interest rate level is appropriate (...) If I saw that inflation fails to decline to target within the monetary policy horizon, then we should rise rates" (21.11.2022, 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 believe there is a chance for the interest rates to be able to settle at the current level for many months (...) Should it happen indeed, it would give the MPC members the comfort of observing the effects of to-date hikes, which influence various types of economic processes with a several months' time shift." (17.11.2022, radiomaryja.pl, PAP)
I. Dabrowski	1.9	"In a certain pessimistic scenario it [inflation exceeding 20%] is obviously possible, but under assumption that nothing changes - there are no perturbations similar to Covid or the aggression on Ukraine - it [inflation] should stabilize. It need not be exactly that [target] range, but we should approach the neighborhood of that target in 2024". (26.10.2022, Super Express, 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.

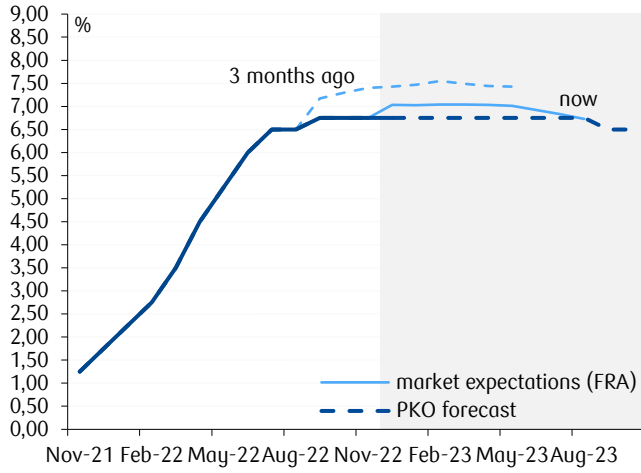
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	24-Nov	24-Dec	24-Jan	24-Feb	24-Mar	24-Apr	24-May	24-Jun	24-Jul	24-Aug
WIBOR 3M/FRA†	7.32	7.23	7.23	7.24	7.24	7.23	7.22	7.12	7.03	6.93
implied change (b. p.)		-0.09	-0.09	-0.08	-0.08	-0.09	-0.11	-0.20	-0.29	-0.40
MPC Meeting	9-Nov	7-Dec	4-Jan	8-Feb	8-Mar	5-Apr	10-May	6-Jun	6-Jul	-
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*		6.66	6.66	6.67	6.67	6.66	6.65	6.55	6.46	6.36

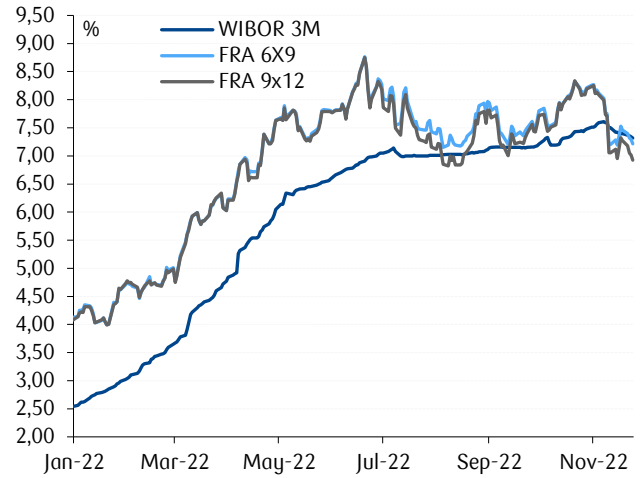
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

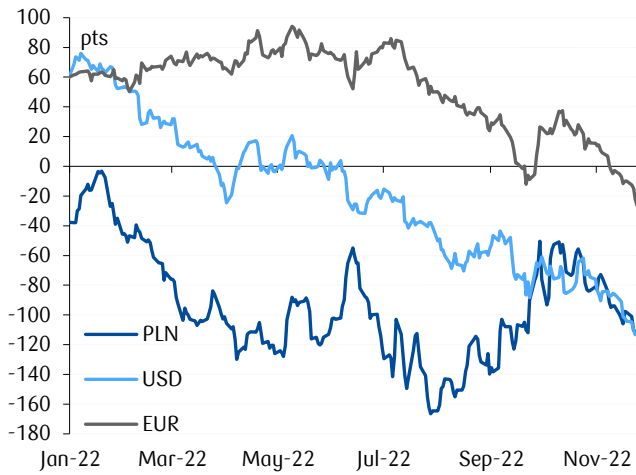
NBP policy rate: PKO BP forecast vs. market expectations



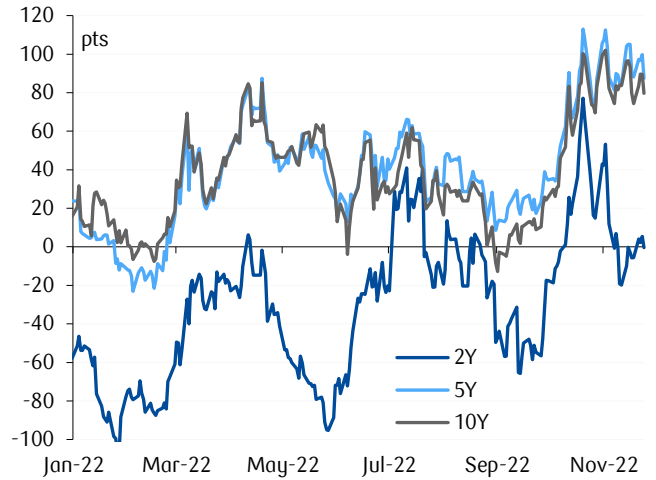
Short-term PLN interest rates



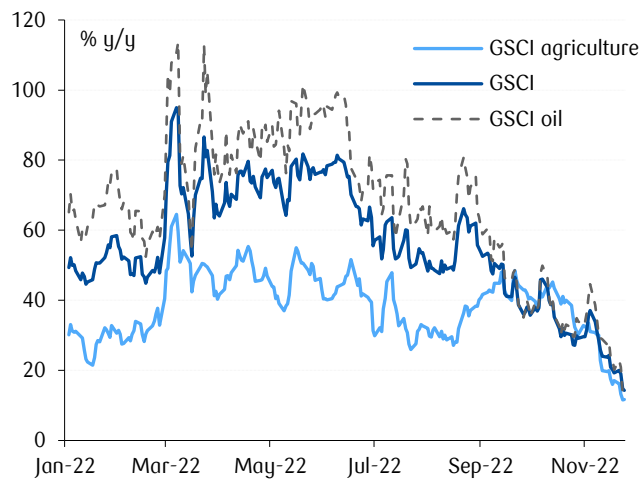
Slope of the swap curve (spread 10Y-2Y)*



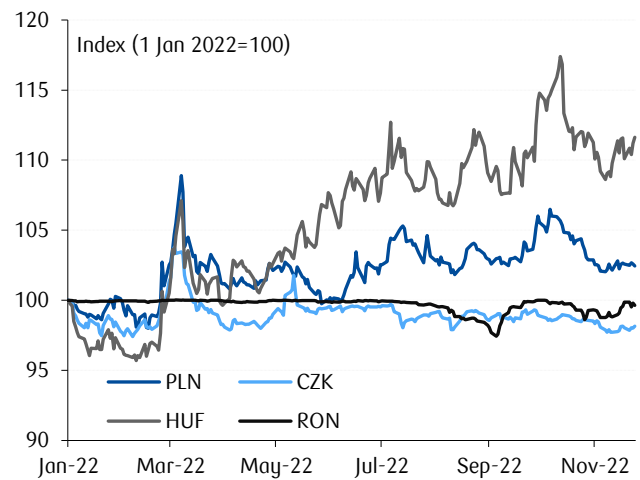
PLN asset swap spread



Global commodity prices (in PLN)

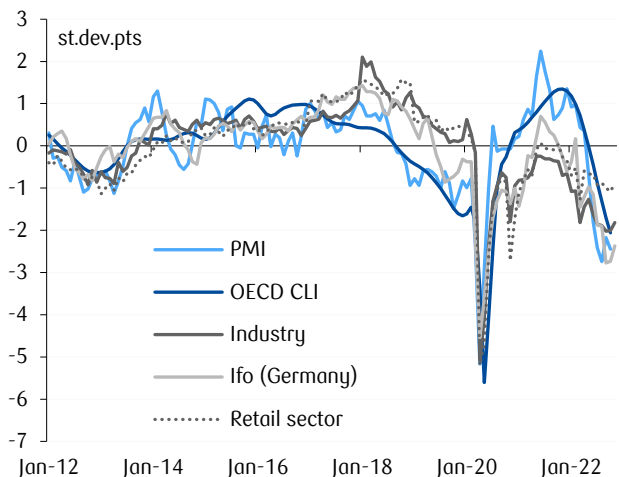


Selected CEE exchange rates against the EUR

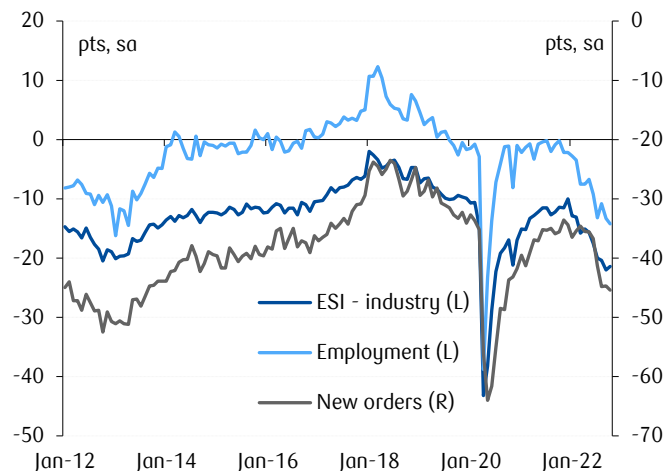


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

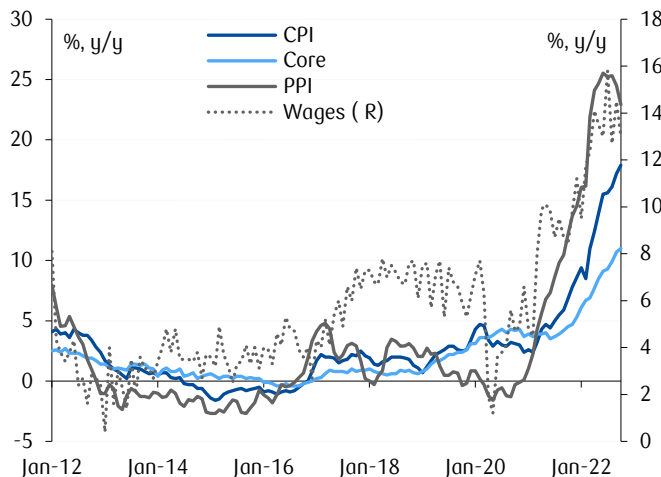
Economic sentiment indicators



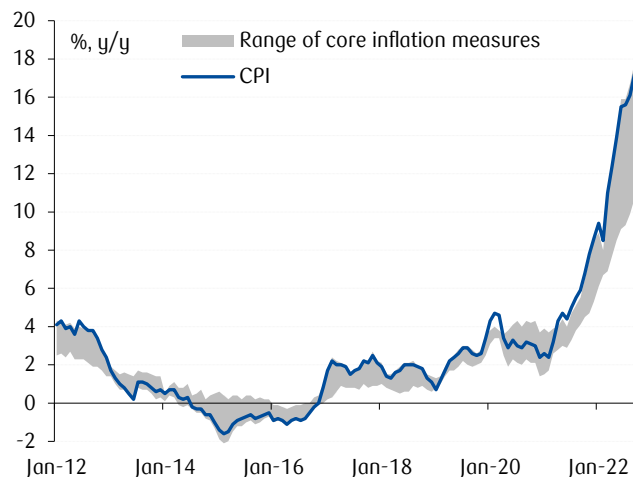
Poland ESI for industry and its components



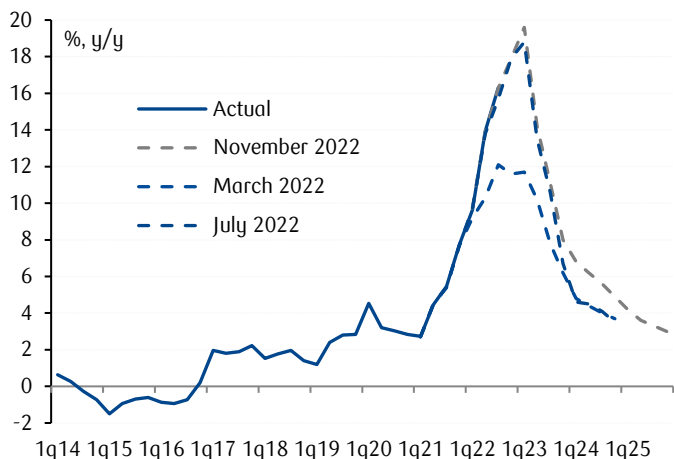
Broad inflation measures



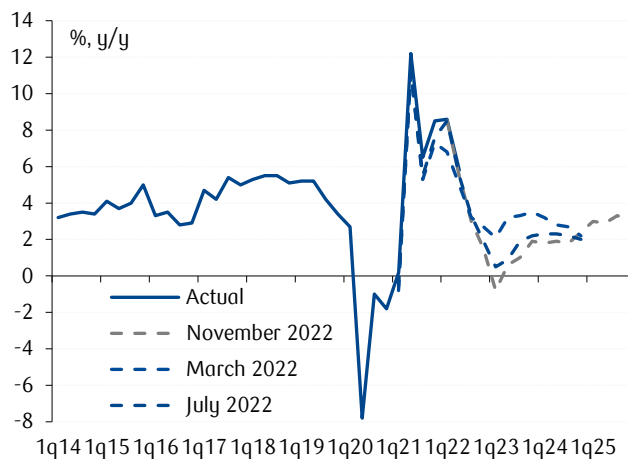
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

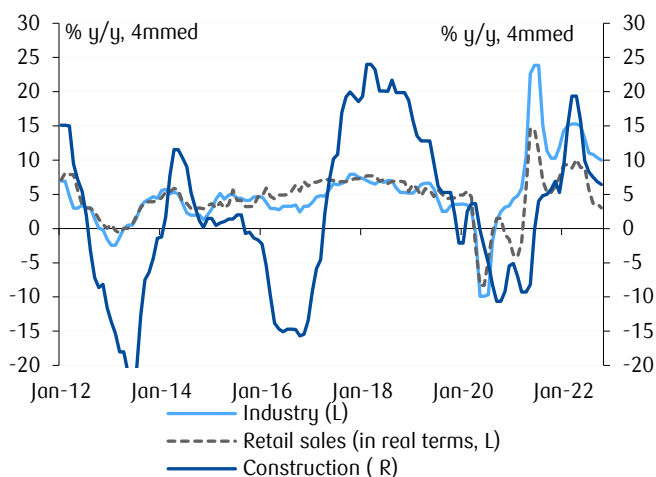


Real GDP growth – NBP projections vs. actual

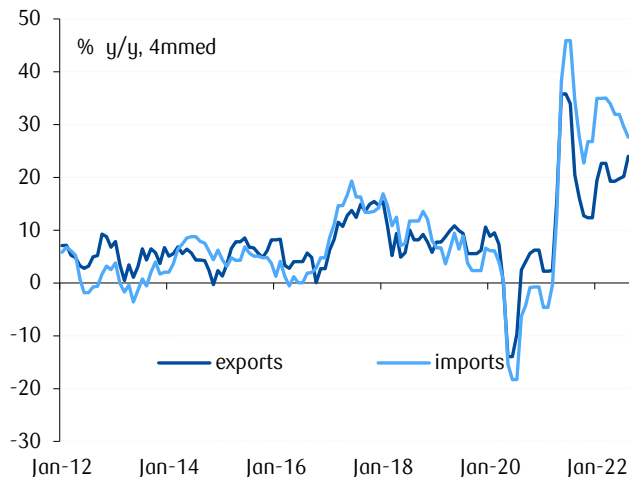


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

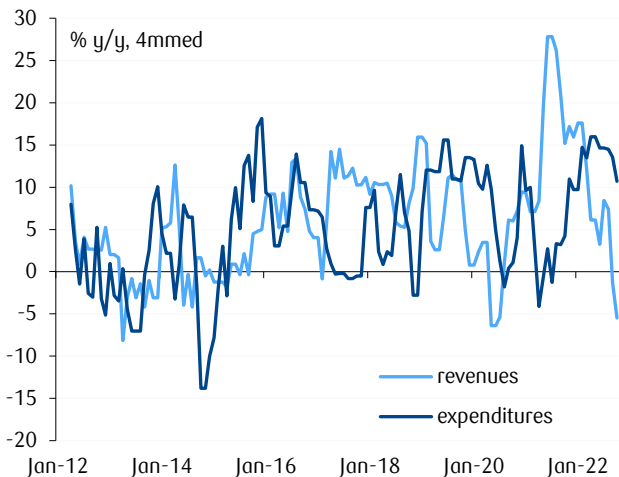
Economic activity indicators



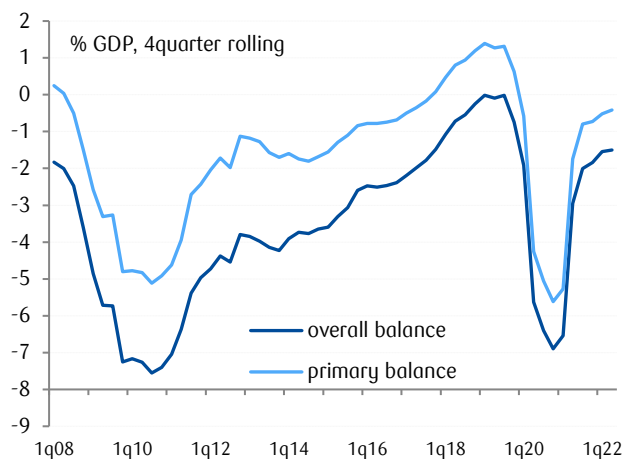
Merchandise trade (in EUR terms)



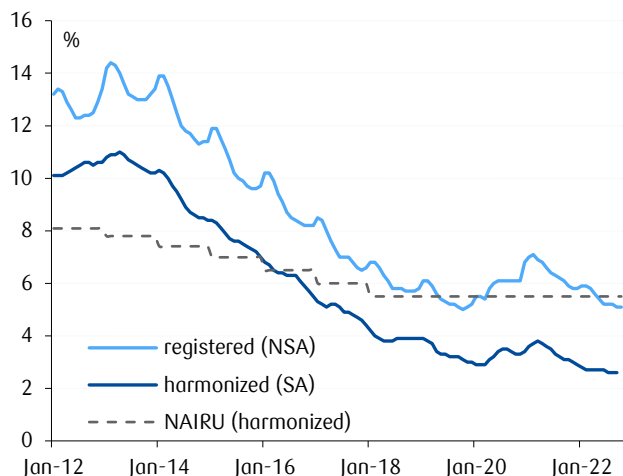
Central government revenues and expenditures*



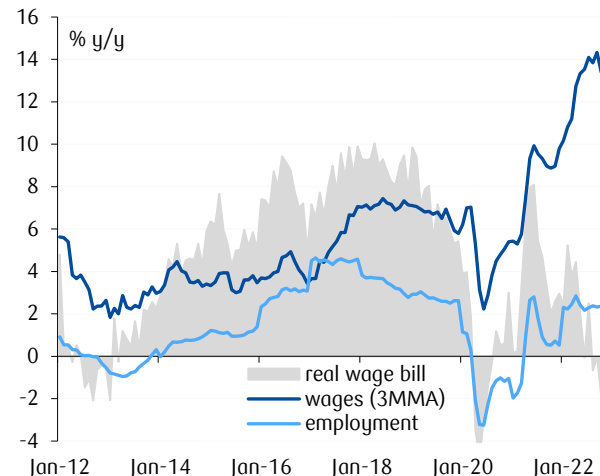
General government balance (ESA2010)



Unemployment rate

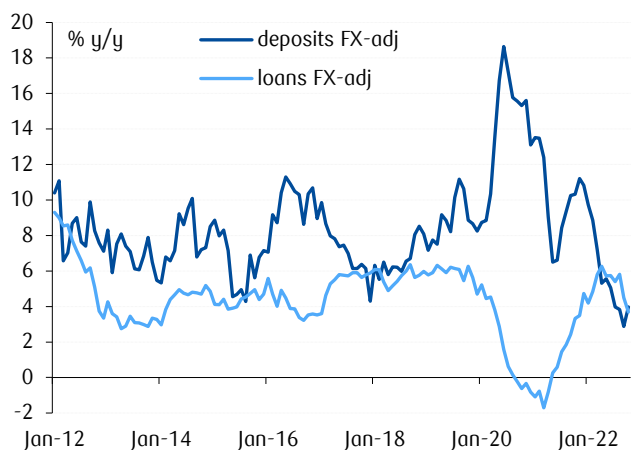


Employment and wages in the enterprise sector

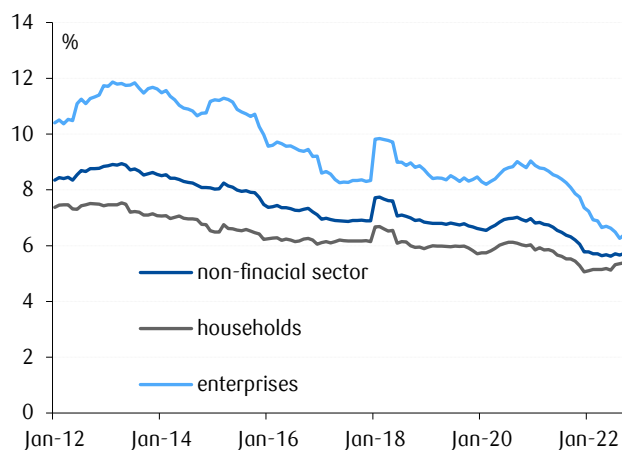


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

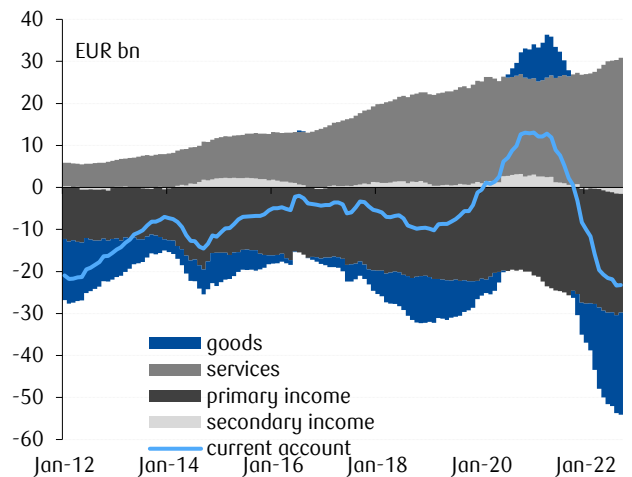
Loans and deposits



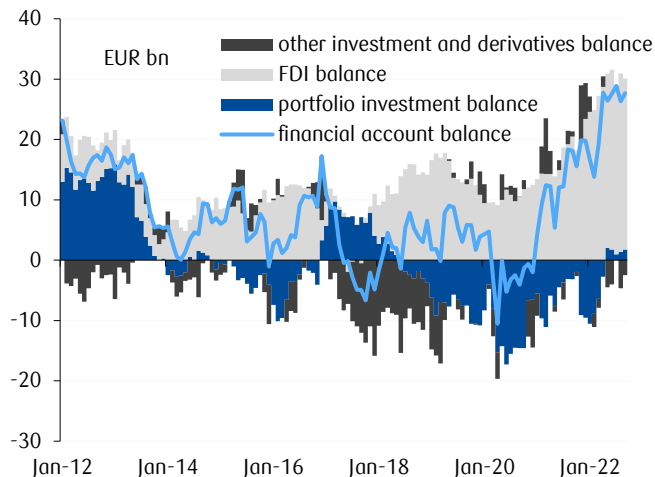
Non-performing loans (NPLs) - by sectors*



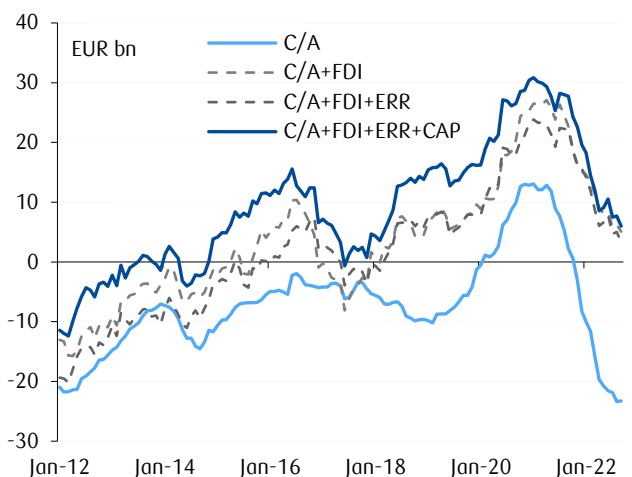
Current account balance



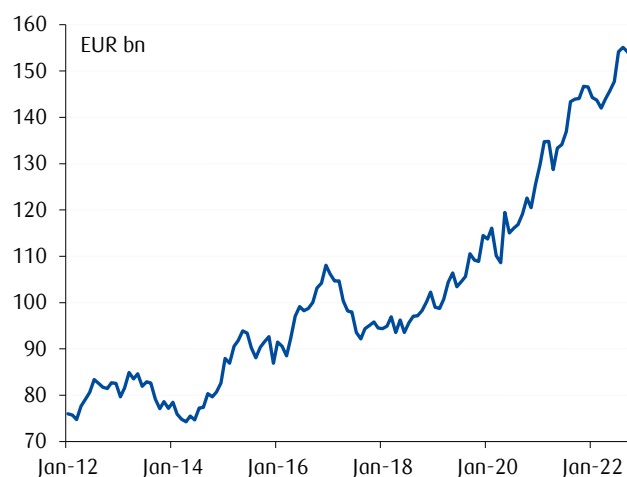
Financial account balance



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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