

Housing market: The worst is over

TOP MACRO THEME(S):

- **Housing market: The worst is over (p. 2):** Continued decline in transaction volume and slower growth (y/y) of housing prices were main trends in 3q22. With housing starts dropping sharply we should see restored market equilibrium in approximately 2-years' time.

WHAT ELSE CAUGHT OUR EYE:

- **Poland's CPI inflation in November settled at 17.5% y/y, slightly above the 17.4% flash estimate, but still down from 17.9% in October.** The headline inflation rate was lowered by energy and fuel prices. We will have to wait a while for a downward trend in case of core inflation and food prices, while energy costs will drive CPI inflation up in early 2023.
- **CAB deficit** stood at EUR 549m in October. The monthly deficit was lower than expected, and much lower than in September, but in 12m rolling terms the gap widened to 3.9% of GDP from 3.7% after 3q22. However, the deficit is still easily financed by stable FDIs inflow, and is lower than in other CEE countries. Despite the global downturn, Polish exports continue to grow at a high rate.
- Poland's lower house adopted **the 2023 budget bill** with budget deficit capped at PLN 68bn. The budget is built on GDP growth assumption of 1.7% and average annual inflation at 9.8%. Higher actual inflation is likely to make up for lower growth therefore the planned deficit seem feasible.

THE WEEK AHEAD:

- **Another dose of local macro data** (economic activity and labour market indicators for November – details in calendar) will confirm the economy is losing momentum, but the labour market is remaining relatively resilient.
- Politicians will be consulting a bill (regarding functioning of the Supreme Court) aimed at getting a green light from the European Commission for disbursement of EU funds for Poland within the Recovery Fund.

NUMBER OF THE WEEK:

- **-1.8 m/m** – monthly decline in prices of solid fuels (coal for households) in November, the first fall since February.

Chart of the week – public debt to GDP ratio in 3q22 was the lowest since 1q20



Source: Eurostat, MinFin, PKO Bank Polski.

Chief Economist

Piotr Bujak
piotr.bujak@pkobp.pl
tel. +48 22 521 80 84

Macro Research Team

[@PKO_Research](https://twitter.com/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
tel. +48 22 521 51 32

Kamil Pastor
Economist
kamil.pastor@pkobp.pl
tel. +48 22 521 81 08

Michal Rot
Economist
michal.rot@pkobp.pl
tel. +48 22 580 34 22

Anna Wojtyniak
Economist
anna.wojtyniak@pkobp.pl

	2021	2022 _†
Real GDP (%)	6.8	4.5
Industrial output (%)	15.6	9.9
Unemployment rate [#] (%)	5.8	5.2
CPI inflation ^{**} (%)	5.1	14.3
Core inflation ^{**} (%)	4.1	9.0
Money supply M3 (%)	8.9	5.8
C/A balance (% GDP)	-1.4	-3.8
Fiscal balance (% GDP)*	-1.8	-2.1
Public debt (% GDP)*	53.8	50.7
NBP reference rate ^{##} (%)	1.75	6.75
EURPLN ^{###}	4.60	4.76

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.

Housing market: The worst is over

- Continued decline in transaction volume and slower growth (y/y) of housing prices were main trends in 3q22. On the supply side we can see a rapidly growing number of completed and unsold primary market units, effectively creating a short-term oversupply. In our opinion purchasing power reached its bottom and is likely to recover. With housing starts dropping sharply we should see restored market equilibrium in approximately 2-years' time.

The transaction volume fell strongly in 1-3q22. Sales were falling most sharply in the primary market – with declines reaching 50-60% y/y in the largest cities and up to 80% y/y in smaller cities with shallower real estate market. The secondary market was slightly less vulnerable to the demand collapse. However, we also observe a strong drop in real estate purchases located outside the buyer's place of residence, therefore it can be concluded that the investment demand has fallen even more than the consumption demand. The reasons for the decline in transactional volume include interest rate hike induced marked reduction in creditworthiness, very conservative prudential regulations, 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. In 3q22 there were only 6.6k flats sold in the six largest cities, a reduction of 56% y/y. The number of flats initially listed for sale in the primary market amounted to 7.2k. As a consequence of the demand collapse, more frequent returns to listing and the continued introduction of new apartments into the offer, the primary market supply at end of 3q22 increased to 51.4k units, representing a 40% increase y/y. These numbers show significant short-term oversupply in the housing market, that is already putting negative pressure on prices. We expect housing prices to fall by 5-10% in the period of 4q22-3q23 with close to zero annual growth recorded already in the 4q22. The supply side response to current situation is a strong decline in number of housing starts. In 3q22 starts declined by 37.3%, of which developer apartments starts were 44.8% less y/y.

Looking at the rental market, we can still see an increase in rents but its pace has moderated. The additional demand coming from Ukrainian citizens now living in Poland has stabilized. However, limited creditworthiness pushing potential apartment buyers into the rental market is still supporting the demand side of the rental market. Rental demand is further buoyed by the fact that the current mortgage payments are now typically higher than rental rates. On the other hand, the end of monetary tightening cycle and a fall in long-term bond yields weakened the expected rate of return by apartment owners. That is why we expect rents to stabilize with a possibility of slight correction in the quarters ahead, especially if the scenario of falling transaction prices is confirmed.

The purchasing power is at its bottom in the current cycle and should recover gradually. High pace of nominal 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.

In our opinion housing sales will go up by 15% next year, while housing starts figures will continue to decline. This will reduce the current oversupply and may even lead to supply shortages particularly noticeable in the largest cities within the next few years. Resurgent demand with limited supply together with the assumption of housing prices stickiness will lead to a renewed increase in housing values around 2025.

Economic Research
www.pkobp.pl/centrum-analiz

 @PKO_Research

Real Estate Research Team
analizy.nieruchomosci@pkobp.pl

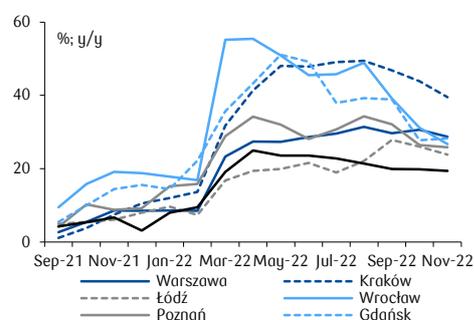
Agnieszka Grabowiecka-Laszek
 Wojciech Matysiak

Value of mortgage applications



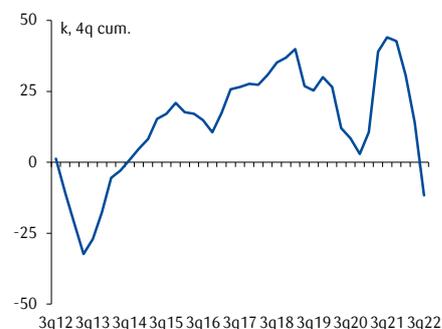
Source: BIK, PKO Bank Polski.

Rental rates



Source: NBP, PKO Bank Polski.

Housing starts less units completed



Source: GUS, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 19 December						
GER: Ifo Business Climate Index (Dec)	9:00	pts.	86.3	87.3	--	--
Tuesday, 20 December						
GER: PPI inflation (Nov)	7:00	% y/y	34.5	30.0	--	--
POL: Wages (Nov)	9:00	% y/y	13.0	12.9	14.7	Wage dynamics was likely pushed up by one-off anti-inflationary payments in some sectors.
POL: Employment (Nov)	9:00	% y/y	2.4	2.3	2.3	
POL: Industrial production (Nov)	9:00	% y/y	6.8	2.2	3.7	Disinflation in producer prices likely continued as output growth decelerated on slower global demand
POL: PPI inflation (Nov)	9:00	% y/y	22.9	21.5	21.1	
HUN: MNB meeting (Dec)	13:00	%	13.0	13.0	13.0	--
USA: Building Permits (Nov)	13:30	thous.	1526	1486	--	--
USA: Housing starts (Nov)	13:30	thous.	1425	1404	--	--
EUR: Consumer Confidence (Dec, flash)	15:00	pts.	-23.9	-22	--	--
JP: BoJ meeting (Dec)	--	%	-0.1	-0.1	--	--
Wednesday, 21 December						
POL: Consumer Confidence (Dec)	9:00	pts.	-44.0	-43.3	-43.5	--
POL: Construction output (Nov)	9:00	% y/y	3.9	-1.6	-3.2	Construction output likely went into red driven down by freezing temperatures and lower public investment.
POL: Retail sales (Nov)	9:00	% y/y	0.7	0.5	0.3	Sluggish retail sales growth despite more than 1 million new consumers from Ukraine is caused by falling real wages.
CZ: Central bank meeting (Dec)	13:30	%	7.0	7.0	7.0	--
USA: Consumer confidence (Dec)	15:00	pts.	100.2	101.0	--	--
Thursday, 22 December						
POL: Money Supply M3 (Nov)	13:00	% y/y	7.0	5.9	5.9	M3 growth continued to decelerate.
USA: GDP growth (3q)	13:30	% q/q saar	-0.6	2.9	--	--
USA: Personal consumption (3q)	13:30	% q/q saar	2.0	1.7	--	--
USA: Initial Jobless Claims (Dec)	13:30	thous.	211	--	--	--
Friday, 23 December						
POL: Unemployment Rate (Nov)	9:00	%	5.1	5.1	5.1	Unemployment rate has likely stabilized close to record lows at the end of the year.
USA: Personal Income (Nov)	13:30	% m/m	0.7	0.2	--	--
USA: Personal spending (Nov)	13:30	% m/m	0.8	0.2	--	--
USA: Durable goods orders (Nov, flash)	13:30	% m/m	1.1	-0.8	--	--
USA: PCE Deflator (Nov)	13:30	% y/y	6.0	5.5	--	--
USA: Core PCE inflation (Nov)	13:30	% y/y	5.0	4.7	--	--
USA: University of Michigan sentiment (Dec, final)	15:00	pts.	56.8	59.1	--	--
USA: New home sales (Nov)	15:00	thous.	632	600	--	--

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	"We still have 17% inflation; talking [about rate cuts] in a situation when inflation is at such a level and expectations are even higher . . . is premature." (9.12.2022, Parkiet TV, PAP)
P. Litwiniuk	3.7	"In the environment where borrowers have a cushion in the form of credit holidays, which will last throughout 2023, it would be advisable, in my opinion, to tighten monetary policy more. Additional rate hikes would make the return path to the inflation target steeper. In my opinion, tolerating higher inflation generates higher costs than possible minor labour market perturbations that could result from interest rate hikes." (15.12.2022, Parkiet, PAP)
H. Wnorowski	2.7	"In my opinion, it cannot be unequivocally declared that this is the end of interest rate hikes. However, I think it may be the end of this cycle, given the favourable circumstances and a high probability that the scenario from the November projection will come true. (...) Our break proves that we do not want decisions on further hikes which would perhaps speed up the pace of reaching the target but result in costs that are too high." (29.11.2022, Reuters)
A. Glapinski	2.4	"The cycle is still suspended, we are not saying it's the end. (...) If inflation rises, we will hike rates. (...) The Council has not discussed ending the cycle. The March projection will tell us a lot. If the projection will show falling inflation, the council will discuss whether to put an end to the hiking cycle." (8.12.2022, NBP press conference, PAP)
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, Biznes 24, 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	"In the current situation, in the light of available data and forecasts, particularly NBP's inflation projection, the rates level is optimal." (30.11.2022, PAP)
G. Maslowska	2.1	"There is quite a good chance that the next decision of the MPC to change interest rates will not be a hike, but a cut. With some caution, but I think we can already consider a scenario, in which the MPC will be able to cut interest rates in 2024. An interest rate cut next year now seems less likely, although such a scenario should not be ruled out either." (16.12.2022, radiomaryja.pl, Bloomberg)
I. Dabrowski	1.9	"The markets are right to assume that we might see the first rate cuts as soon as next year. (...) Our interest rates are well calibrated to bring down the headline and core inflation. (...) We will fight inflation, but not at the cost of a dramatic fall in GDP. Crazy rate hikes won't do anything and could be counterproductive, hitting growth hard." (28.10.2022, Bloomberg)

*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.

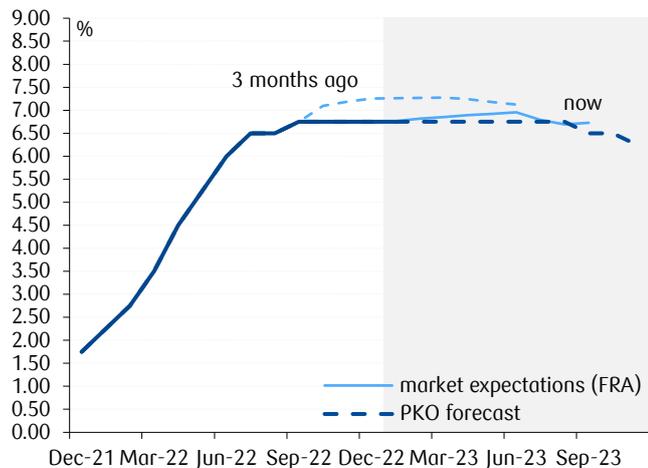
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	15-Dec	15-Jan	15-Feb	15-Mar	15-Apr	15-May	15-Jun	15-Jul	15-Aug	15-Sep
WIBOR 3M/FRA†	7.08	7.09	7.14	7.19	7.22	7.25	7.29	7.12	7.02	7.06
implied change (b. p.)		0.01	0.06	0.11	0.14	0.17	0.21	0.04	-0.06	-0.02
MPC Meeting	7-Dec	4-Jan	8-Feb	8-Mar	5-Apr	10-May	6-Jun	6-Jul	-	6-Sep
PKO BP forecast*	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50
market pricing*		6.76	6.81	6.86	6.89	6.92	6.96	6.79	6.69	6.73

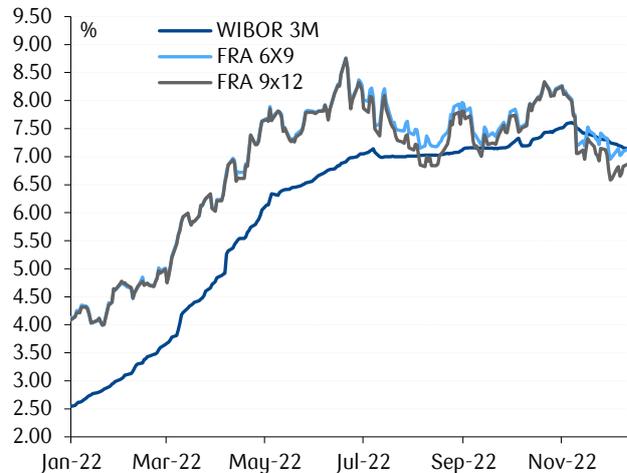
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

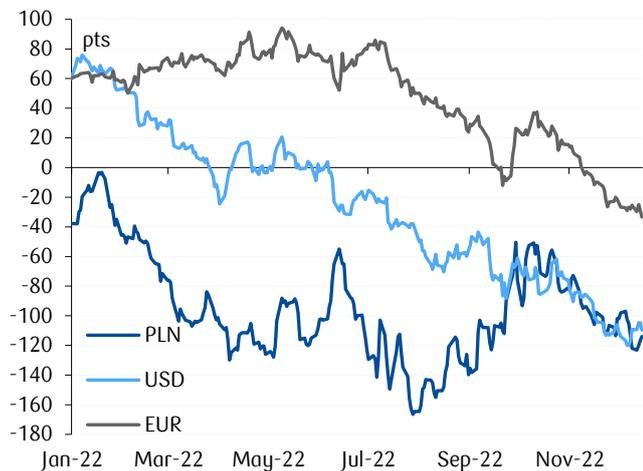
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



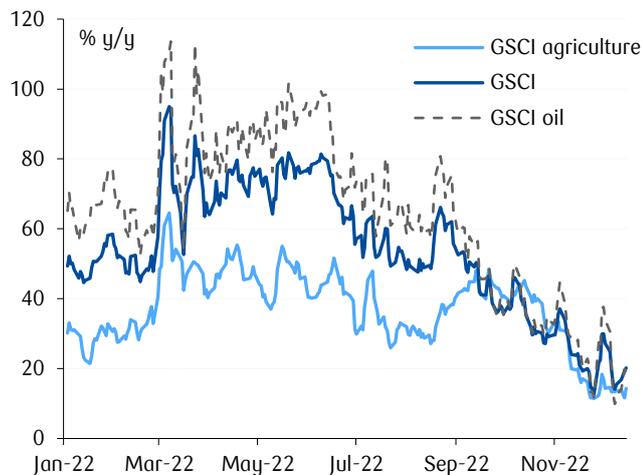
Slope of the swap curve (spread 10Y-2Y)*



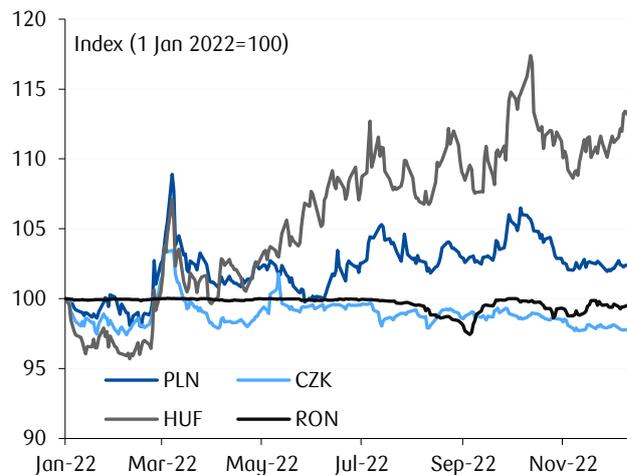
PLN asset swap spread



Global commodity prices (in PLN)

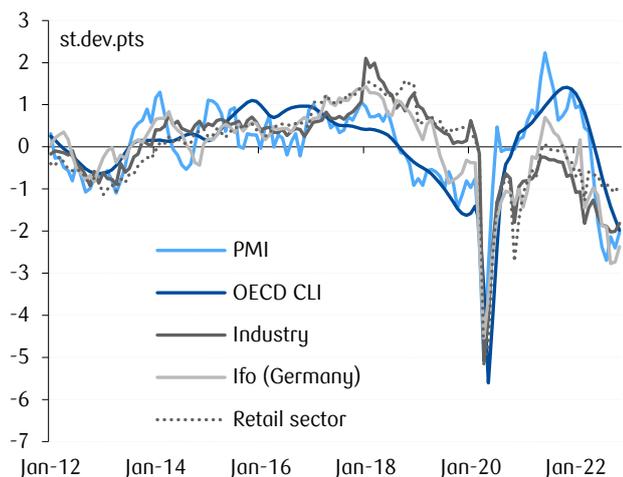


Selected CEE exchange rates against the EUR

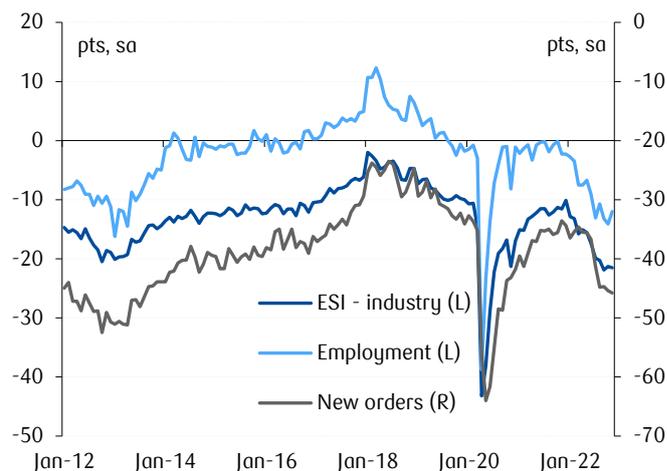


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

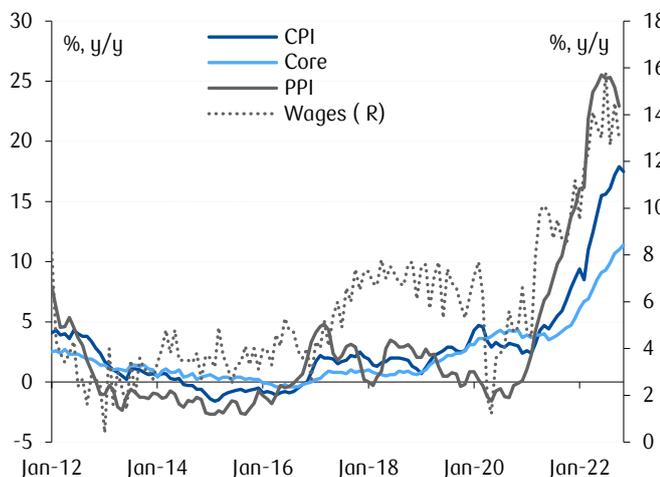
Economic sentiment indicators



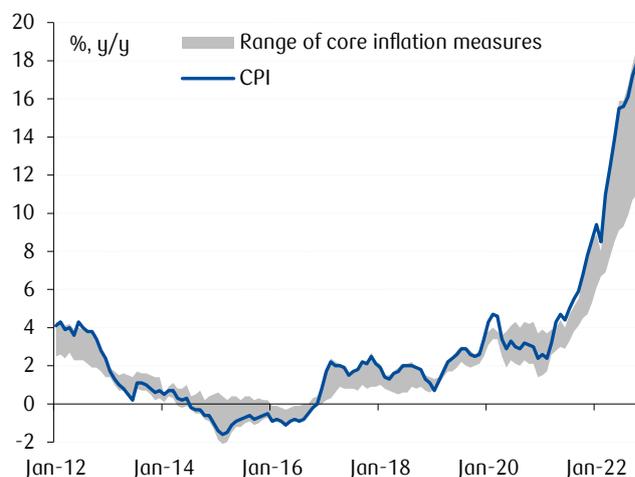
Poland ESI for industry and its components



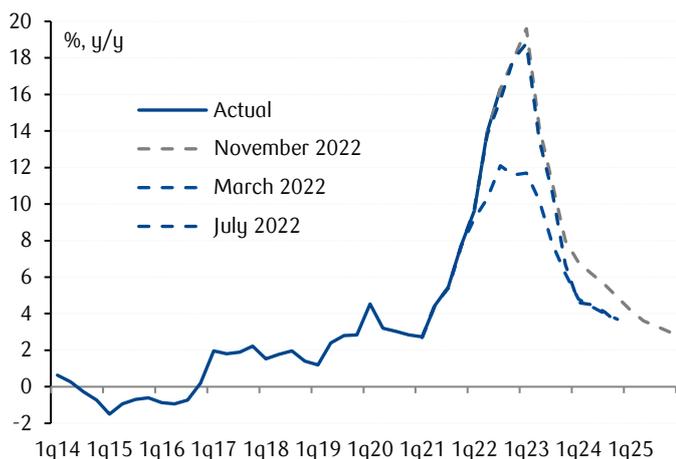
Broad inflation measures



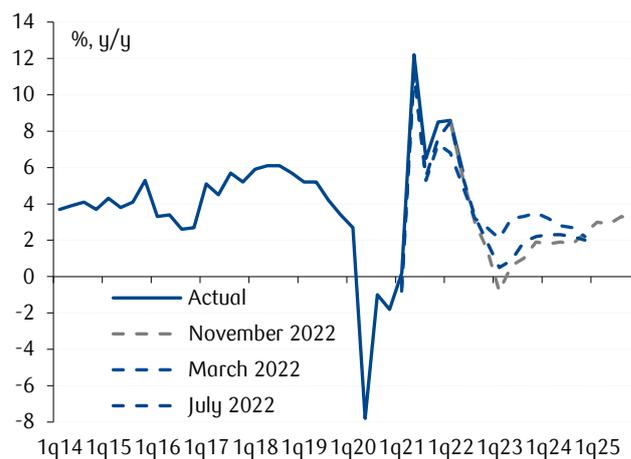
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

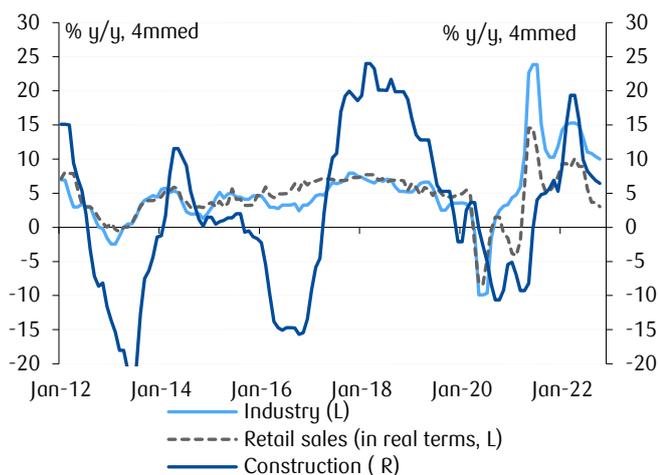


Real GDP growth – NBP projections vs. actual

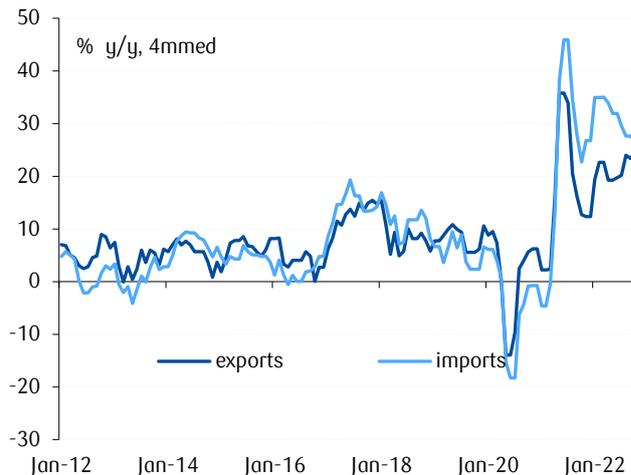


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

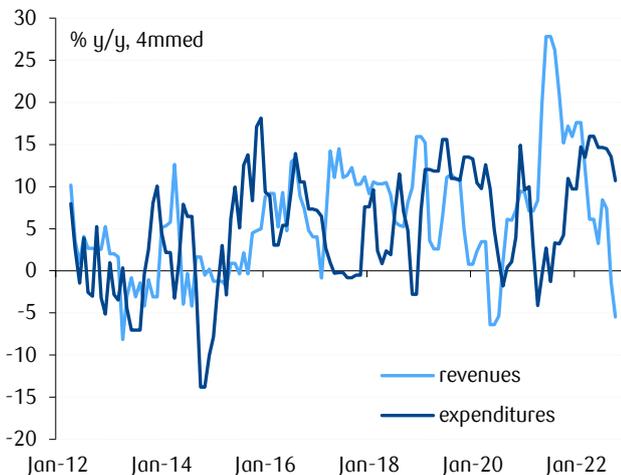
Economic activity indicators



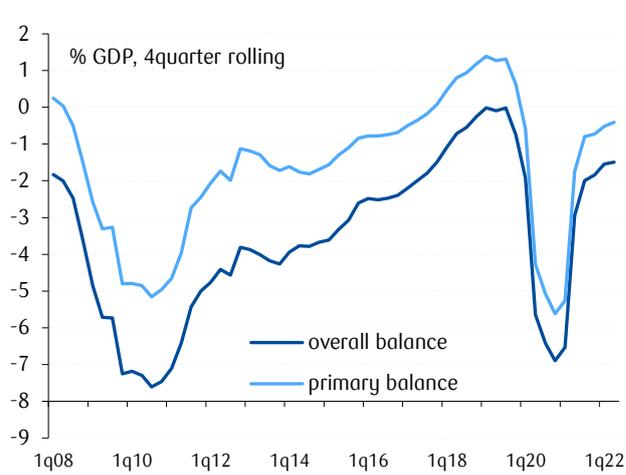
Merchandise trade (in EUR terms)



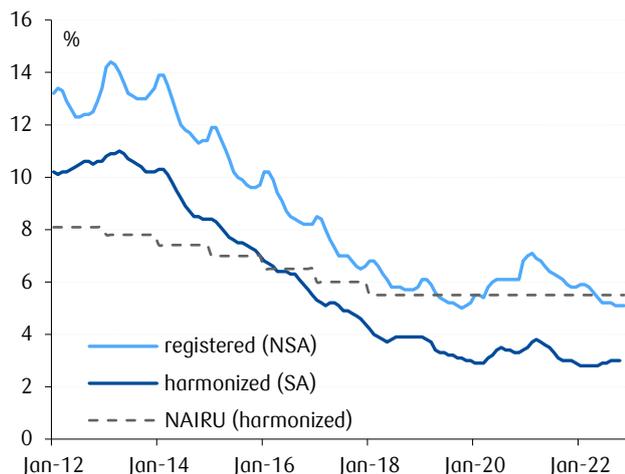
Central government revenues and expenditures*



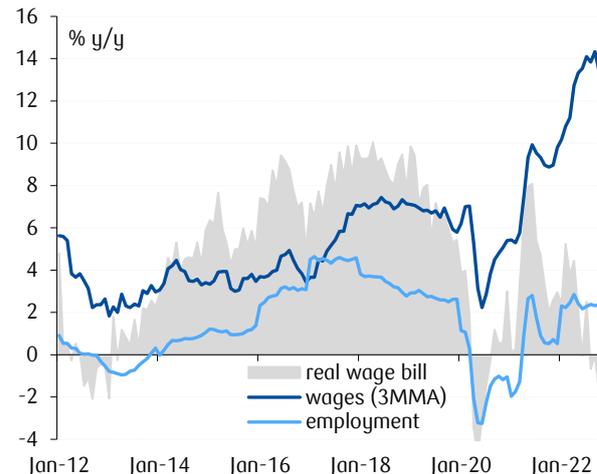
General government balance (ESA2010)



Unemployment rate

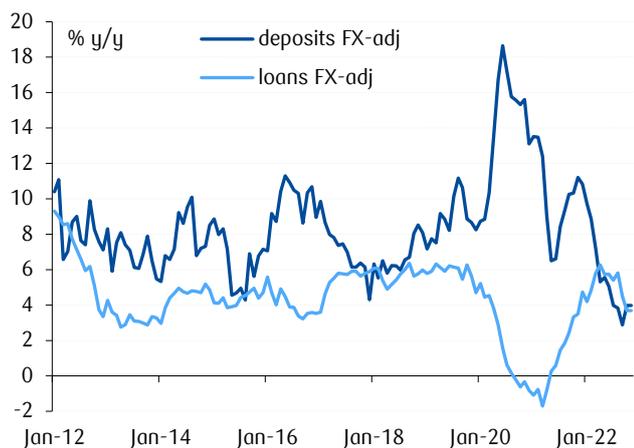


Employment and wages in the enterprise sector

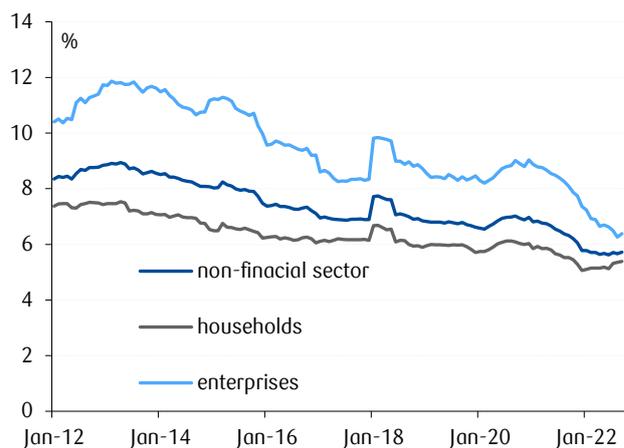


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

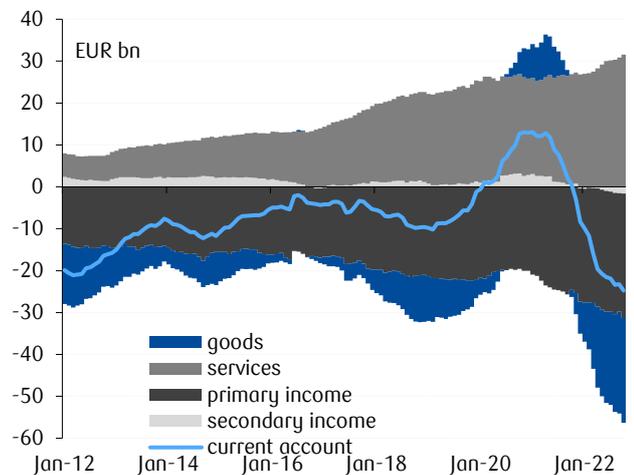
Loans and deposits



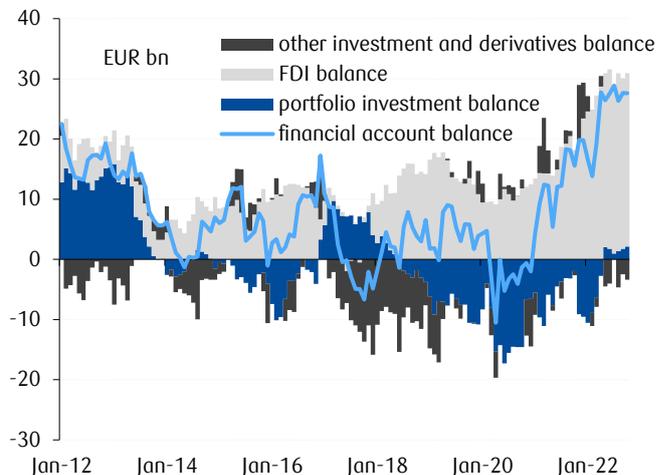
Non-performing loans (NPLs) - by sectors*



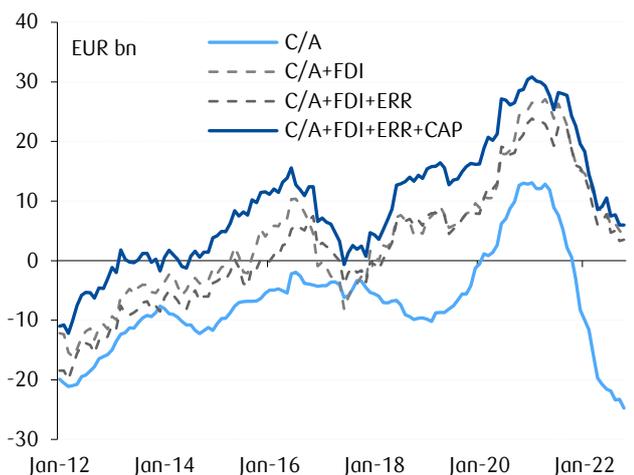
Current account balance



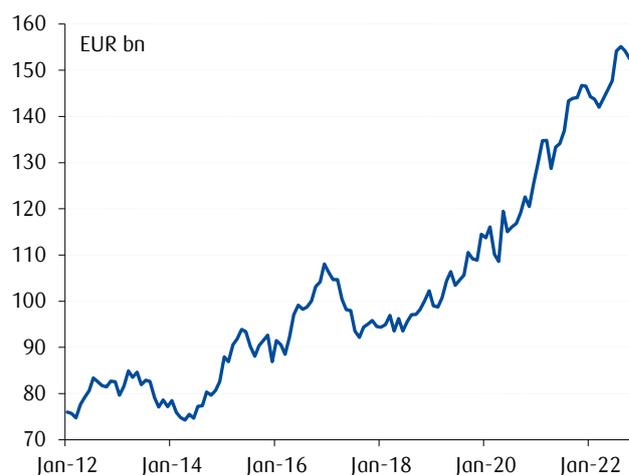
Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



Source: NBP, PKO Bank Polski. *break in series in Jan2018 due to methodological changes.

Previous issues of PKO Macro Weekly:

- [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)
- [Unemployment at the bottom and inflation plateau](#) (Jul 29, 2022)
- [Slowdown just ahead](#) (Jul 22, 2022)
- [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)
- [Not all gold that glows](#) (May 27, 2022)
- [GDP growth rate at 5%?](#) (May 20, 2022)
- [Less reliant on Germany?](#) (May 13, 2022)
- [MPC is slowing down](#) (May 6, 2022)
- [100bps month by month?](#) (Apr 29, 2022)
- [Nothing lasts forever](#) (Apr 22, 2022)

The above information has been prepared for informational purposes only and is provided to PKO BP SA Group clients. It is not an offer (as understood under the Civil Law of 23rd April 1964) to buy or sell or the solicitation of an offer to buy or sell any financial instrument and does not constitute the provision of investment, legal or tax advice. It is also not intended to provide a sufficient basis on which to make an investment decision. The above information has been obtained from or based upon sources believed to be reliable, but PKO BP SA Group does not warrant its completeness or accuracy. PKO Bank Polski Group strongly recommends that clients independently evaluate particular investments and accepts no liability for the financial effect of its clients' investment decisions.

The above information is prepared and/or communicated by Powszechna Kasa Oszczędności Bank Polski S.A., registered in the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register under KRS number 0000026438, Tax Identification Number (NIP): 525-000-77-38, REGON: 016298263, share capital 1,250,000,000 PLN.