

GDP growth in 4q22 heading south

TOP MACRO THEME(S):

- **GDP growth in 4q22 heading south (p. 2):** Output and retail sales figures for December were a mixed bag and confirmed our estimate that GDP growth in 4q22 was 0.9% y/y (vs 3.6% y/y in 3q22), as private consumption remained subdued, fixed investments were at most moderate while exports revived.

WHAT ELSE CAUGHT OUR EYE:

- **PPI inflation declined in December**, the fourth consecutive month (20.4% y/y vs 21.1% y/y in November). Core HICP (excl. services) inched down in December confirming the disinflationary signals in the core PPI.
- **Money (M3) supply growth slowed in December** (5.4% y/y), with household lending (both consumer and mortgages) still in the red.
- **Unemployment rate inched up in December**, in line with seasonal pattern, to 5.2%, hovering near all-time lows. Declining labour demand has been manifested in falling number of job offers while the data on planned layoffs show little sign of a major deterioration in labour market conditions.
- **Fiscal (ESA) deficit in 3q22 has been confirmed at 2.3% of GDP** (4q rolling). That said, despite a war-effort pressures, Poland's fiscal balance excl. outlays on new infrastructure hovered near zero, much better than among CEE peers and average in the EU.

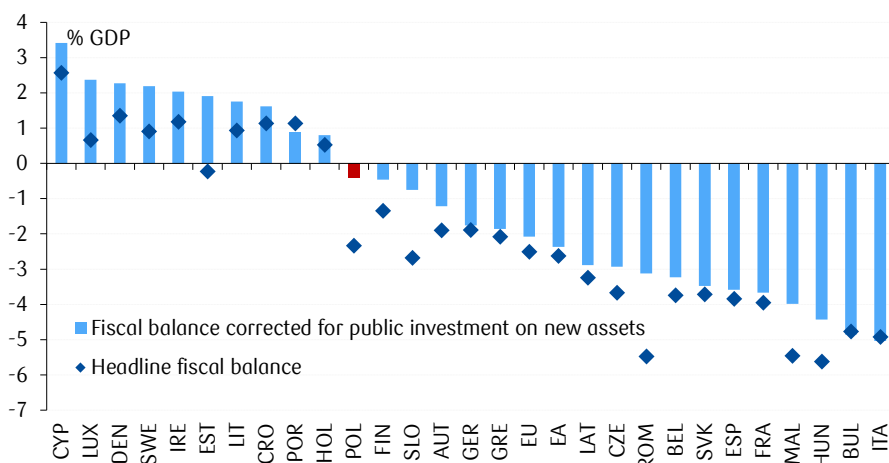
THE WEEK AHEAD:

- **Manufacturing PMI** in January most likely moved higher, in line with German and Eurozone counterparts.
- **GDP growth in 2022** hit 4.5% on positive carry-over effects despite waning growth momentum (with q/q sa growth rate in 4q22 below zero, on our estimates).

NUMBER OF THE WEEK:

- **76.2%** - LtD ratio in the banking sector in Poland as of December 2022, the lowest since December 2002.

CHART OF THE WEEK: Fiscal balance in 3q22



Source: Eurostat, PKO Bank Polski.

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	2022	2023 [†]
Real GDP (%)	4.5	0.1
Industrial output (%)	10.2	-2.0
Unemployment rate [#] (%)	5.2	5.4
CPI inflation ^{**} (%)	14.4	13.2
Core inflation ^{**} (%)	9.1	8.9
Money supply M3 (%)	5.4	4.5
C/A balance (% GDP)	-3.6	-2.6
Fiscal balance (% GDP) [*]	-1.7 [^]	-5.1
Public debt (% GDP) [*]	50.8 [^]	52.7
NBP reference rate ^{##} (%)	6.75	6.25
EURPLN ^{††}	4.69	4.58

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.

GDP growth in 4q22 heading south

- Output and retail sales figures for December were a mixed bag and confirmed our estimate that GDP growth in 4q22 was 0.9% y/y (vs. 3.6% y/y in 3q22), as private consumption remained subdued, fixed investments were at most moderate while exports revived.

The key indicators of economic activity confirmed, that the underlying trends in the main sections of the economy are a mixed bag in December. **Industrial production** in December increased by 1.0% y/y (vs. 4.5% y/y in November; PKO: 0.8%; cons.: 1.7%). **Construction output** fell by 0.8% y/y in December (vs +4.0% y/y in November, PKO and cons.: 2.7%). **Retail sales** grew minimally, by 0.2% y/y (PKO: 1.2%, cons: 1.4%; vs. 1.6% y/y recorded in November).

Industrial production in December was affected by calendar effects. Indeed, seasonally adjusted industrial output growth rate improved to 5.6% y/y (from 4.4% y/y in November). Reading details exhibit robust performance of export-oriented industries (incl. automotive). Energy sector contributed negatively to total output growth, while industries sensitive to commodity prices recorded declines (eg. chemicals).

Construction output was most likely affected by weather conditions in December, which halted some civil engineering works. Detailed data also confirm that the housing market is still under pressure. In addition to the decline in the production of buildings (-3.7% y/y) in December, we also had the lowest number of housing starts since 2016 (and half of that from the peak in May 2021). These trends will continue in the near future.

Retail sales grew minimally, by 0.2% y/y (PKO: 1.2%, cons: 1.4%; vs. 1.6% y/y recorded in November). It seems, that retail sales was kept afloat only thanks to the influx of refugees from Ukraine, boosting population of Poland by approx. 3-4% - we estimate that the expenses of the average domestic consumer fell in real terms by 3-4% y/y. Indeed, in December, as in previous months, only the sales of basic necessities grew - food (+1.9% y/y), clothing and footwear (+7.2% y/y), pharmaceuticals and cosmetics (+7.6% y/y) and other sales in non-specialized stores (discounts). The deepest decline was recorded in the case of furniture, electronics and household appliances (-10.4% y/y) reflecting a frozen housing market.

The December data are in line with the consumer recession expected by us at the turn of 2022/2023 - a decrease in the real income of the population combined with the eroding possibility to cushion it with the use of the pandemic savings, will most likely translate into a decline in consumption. Although the immediate future still looks bleak, recent consumer sentiment surveys suggest that the situation for consumers has stopped deteriorating. For several months we have been observing an improvement in the consumer situation, from a very low level recorded in autumn. On the business sentiment side, the economic situation in retail trade has also slightly improved. The rapid drop in inflation expected by us, combined with stable unemployment and nominal wage growth rates will allow for a return to growth in consumption at the end of this year.

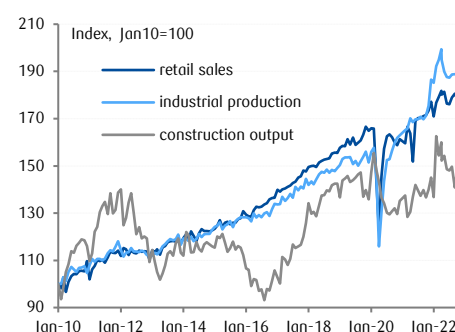
All in all, given the data published so far, we stick to our estimate that **GDP growth rate in 4q22 declined to 0.9% y/y** (from 3.6% y/y in 3q22, see our monthly proxy [PKO-GDP-M]) and was negative in q/q terms. Indeed, 4q data from the economy confirm that consumer - related slowdown continued, with retail sales, consumer lending business and real wage fund growth rates weakening as compared to 3q22 (see margin table). Taking into account the four quarters of 2022 we estimate that GDP expanded 4.5% in 2022 as a whole.

Key macro indicators for 4q22

% y/y	3q22	4q22
Industry	9.7	4.6
Construction	3.4	2.4
Retail sales	2.8	0.1
Wholesale trade*	36.3	36.4
Wages^	14.5	12.0
Employment^	2.8	2.9
Unemployment rate#	5.1	5.2
Consumer loans (FX adj.)	-3.0	-3.3
Mortgage (PLN denominated)	2.6	-1.6
CPI inflation	16.3	17.3

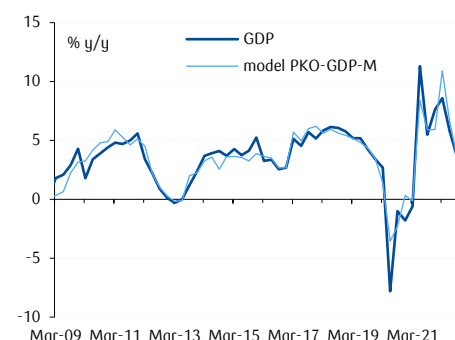
Source: GUS, PKO Bank Polski. *in nominal terms; ^enterprises; #end of period.

Output - levels



Source: GUS, PKO Bank Polski.

GDP monthly proxy [PKO-GDP-M]



Source: GUS, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 30 January						
POL: GDP growth (2022)	9:00	% y/y	6.8	4.6	4.5	GDP growth heading south in 4q22.
GER: GDP growth (4q)	9:00	% y/y	1.2	0.8	--	--
EUR: Consumer Confidence (Jan, final)	10:00	pts.	-22.2	-20.0	--	--
EUR: Economic Sentiment Indicator (Jan)	10:00	pts.	95.8	97.0	--	--
Tuesday, 31 January						
EUR: GDP growth (4q)	10:00	% y/y	2.3	1.7	--	--
GER: CPI inflation (Jan, flash)	13:00	% y/y	8.6	9.2	--	--
USA: S&P CoreLogic CS 20-City (Nov)	14:00	% y/y	8.6	--	--	--
USA: Consumer confidence (Jan)	15:00	pts.	108.3	109.0	--	--
Wednesday, 1 February						
CHN: Manufacturing PMI (Jan)	1:45	pts.	49.0	49.5	--	--
POL: Manufacturing PMI (Jan)	8:00	pts.	45.6	46.0	46.7	Corporates seem to be healing wounds after energy price spike.
GER: Manufacturing PMI (Jan, final)	8:55	pts.	47.1	47.2	--	
EUR: Manufacturing PMI (Jan, final)	9:00	pts.	47.8	48.8	--	--
EUR: CPI inflation (Jan, flash)	10:00	% y/y	9.2	9.1	--	--
USA: ADP National Employment (Jan)	13:15	thous.	235	170	--	--
USA: Manufacturing PMI (Jan, final)	14:45	pts.	46.2	46.8	--	--
USA: ISM Manufacturing (Jan)	15:00	pts.	48.4	48.2	--	--
USA: JOLTS Report (Dec)	15:00	mn	10.468	10	--	--
USA: Fed meeting	19:00	%	4.50	4.75	4.75	--
Thursday, 2 February						
GER: Exports (Dec)	7:00	% m/m	-0.3	-3.5	--	--
UK: BoE meeting	12:00	%	3.50	4.00	4.00	--
EUR: ECB Refinancing Rate	13:15	%	2.50	3.00	3.00	--
EUR: EBC deposit rate	13:15	%	2.00	2.50	2.50	--
CZE: Central bank meeting	13:30	%	7.00	7.00	7.00	--
USA: Initial Jobless Claims	13:30	thous.	186	200	--	--
USA: Factory orders (Dec)	15:00	% m/m	-1.8	1.3	--	--
USA: Durable goods orders (Dec, final)	15:00	% m/m	-1.7	5.6	--	--
Friday, 3 February						
EUR: Services PMI (Jan, final)	9:00	pts.	50.7	50.7	--	--
EUR: PPI inflation (Dec)	10:00	% y/y	27.1	22.6	--	--
USA: Non-Farm Payrolls (Jan)	13:30	thous.	223	185	--	--
USA: Unemployment Rate (Jan)	13:30	%	3.5	3.6	--	--
USA: Average Earnings (Jan)	13:30	% y/y	4.6	4.3	--	--

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 November, the Council decided to leave rates unchanged, guided by the optimistic projection, in which the decrease in the inflation rate results from completely exogenous factors: a rapid and permanent decrease in energy prices and an equally permanent and rapid strengthening of the zloty. If these assumptions fail, the projection will be revised upwards and, in order to maintain cohesion, the MPC will have to leave interest rates at today's level longer than the majority of MPC members assume today." (23.12.2022, rp.pl, PKO transl.)
L. Kotecki	4.8	"(...) I would still see some room for slight interest rate hikes this year but they will likely not take place," Kotecki said. "Most of the Council will slightly overrate the decline of headline inflation." (25.01.2023, gazeta.pl, PAP)
P. Litwiniuk	3.7	"Making announcements by the government spokesperson already in January 2023 about possible extension of credit vacation to 2024 against the current assumptions of the monetary policy, when one has no grounds to expect changes of its parameters, for instance when it comes to reducing interest rates, are unnecessary and could lead to formulating too far reaching conclusions and business decisions." (26.01.2023, PAP)
H. Wnorowski	2.7	"If that inflation impulse [inflation exceeding 20% y/y in Q1] proves rather significant ... if that happens then a return to 1-2 rate hikes would be possible. (...) I think that rather small ones; rather small as large ones are not needed. It's too early to speculate," he added. We have to wait for January readings." (13.01.2023, Biznes24, PAP).
A. Glapinski	2.4	"In my statement, I did not mention that we are not closing the cycle of increases. We are waiting for January and February. I repeat, it is difficult to predict exactly what will happen then - whether there will be a 20% increase in prices or good news again. (...) As soon as it is possible, interest rates will be lowered. Will it be possible at the end of the year? We will see. I still hope so - less than before, but I do." (5.01.2023, NBP press conference, 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	"In my opinion, room for an interest rate cut stands a chance of appearing in 2024, or possibly near end-2023" (26.01.2023, radiomaryja.pl, 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.

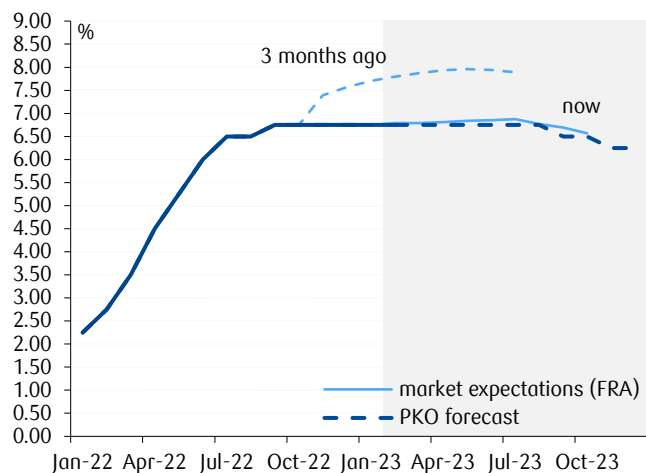
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	26-Jan	26-Feb	26-Mar	26-Apr	26-May	26-Jun	26-Jul	26-Aug	26-Sep	26-Oct
WIBOR 3M/FRA†	6.95	6.94	6.94	6.94	6.89	6.86	6.83	6.72	6.59	6.42
implied change (b. p.)		-0.01	-0.01	-0.01	-0.06	-0.09	-0.13	-0.23	-0.36	-0.53
MPC Meeting	8-Feb	8-Mar	5-Apr	10-May	6-Jun	6-Jul	-	6-Sep	4-Oct	8-Nov
PKO BP forecast*	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.50
market pricing^		6.79	6.79	6.81	6.84	6.86	6.88	6.77	6.69	6.62

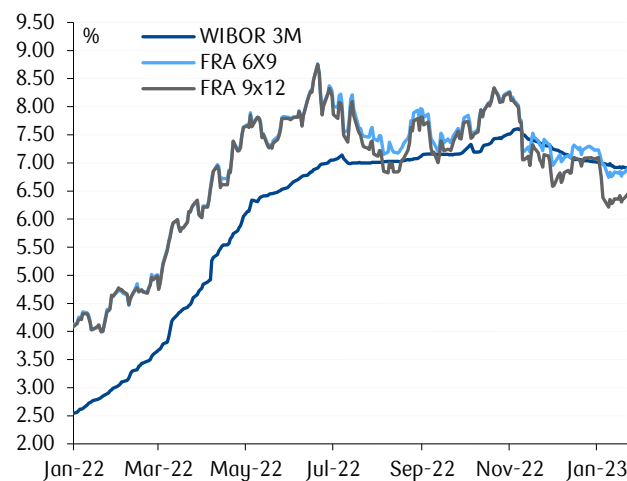
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

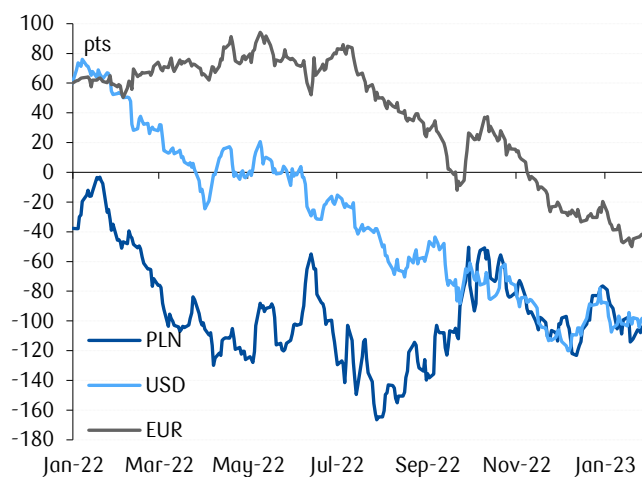
NBP policy rate: PKO BP forecast vs. market expectations



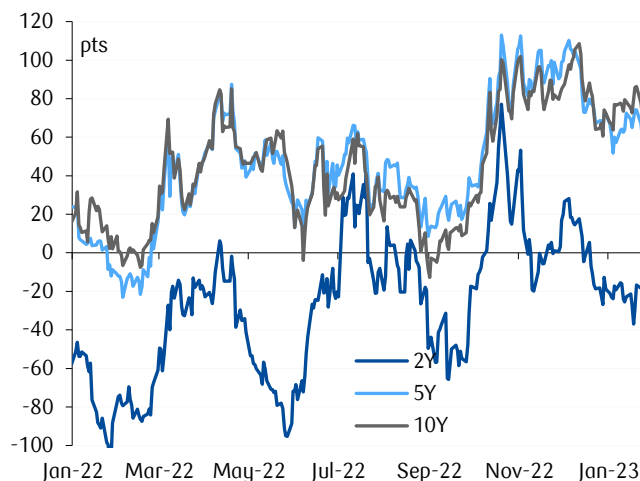
Short-term PLN interest rates



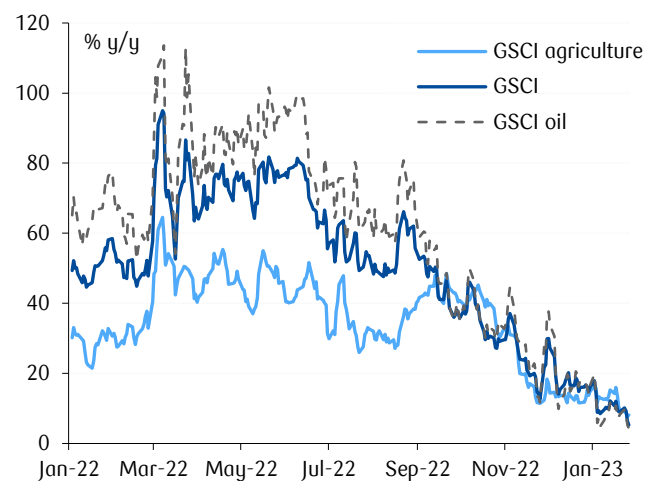
Slope of the swap curve (spread 10Y-2Y)*



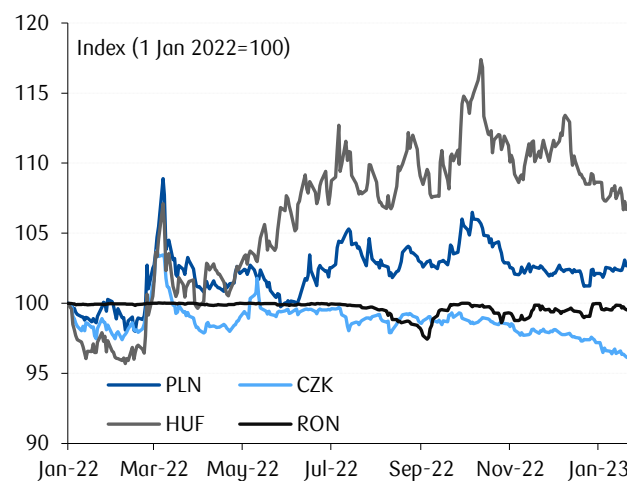
PLN asset swap spread



Global commodity prices (in PLN)

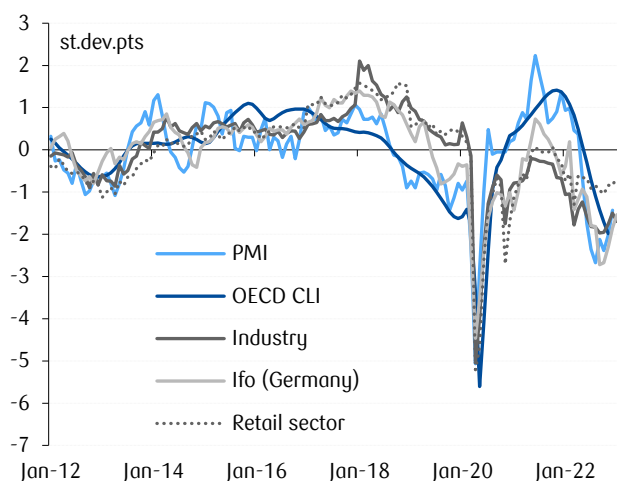


Selected CEE exchange rates against the EUR

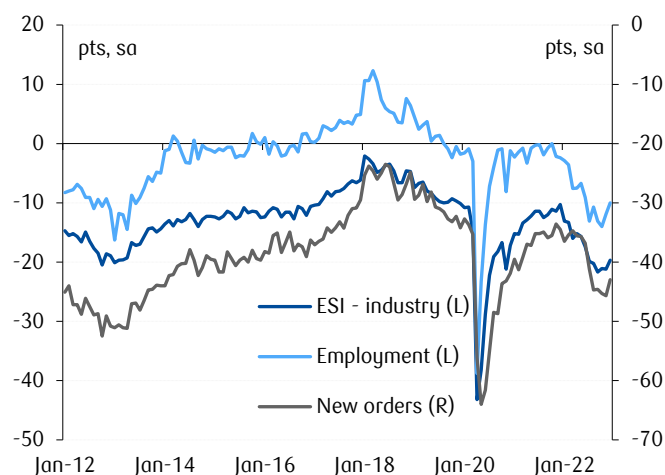


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

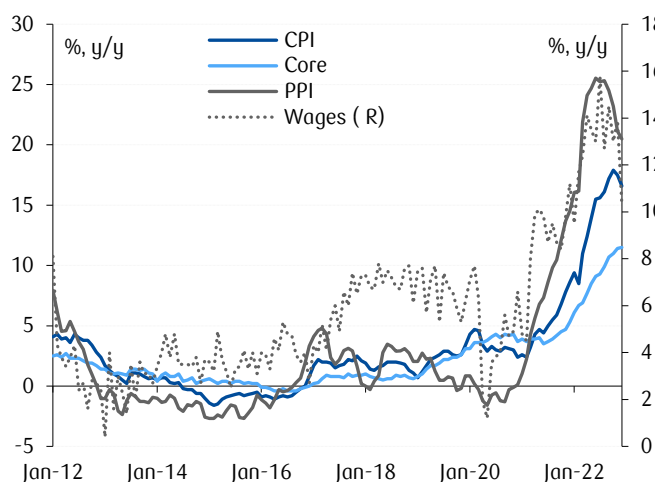
Economic sentiment indicators



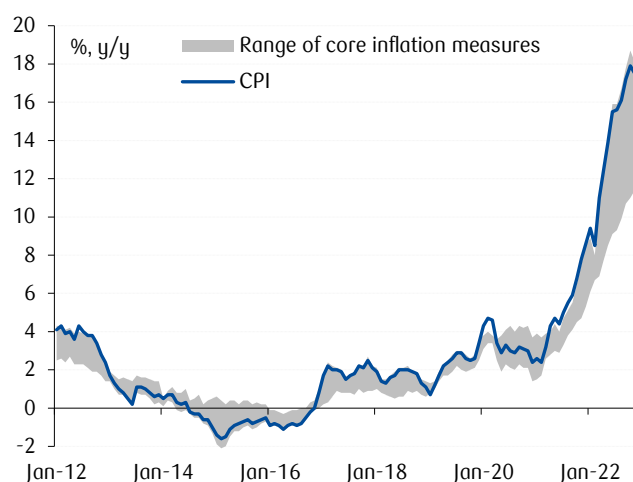
Poland ESI for industry and its components



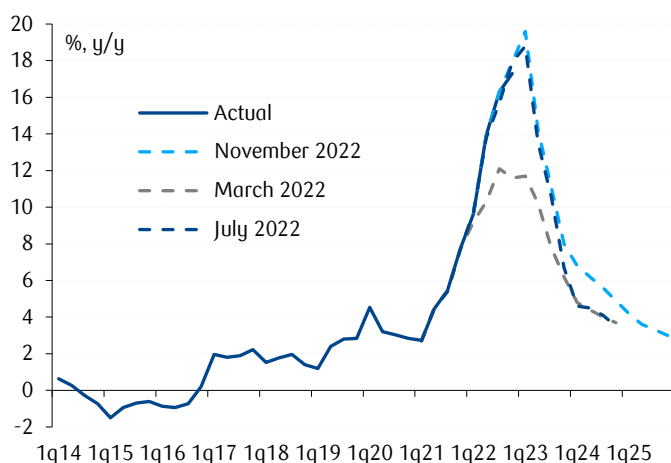
Broad inflation measures



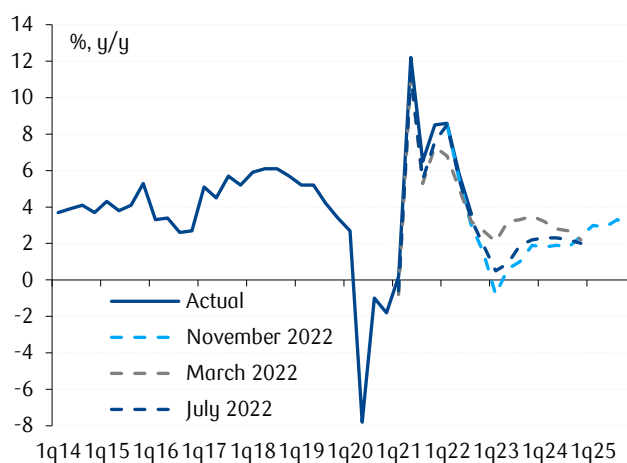
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

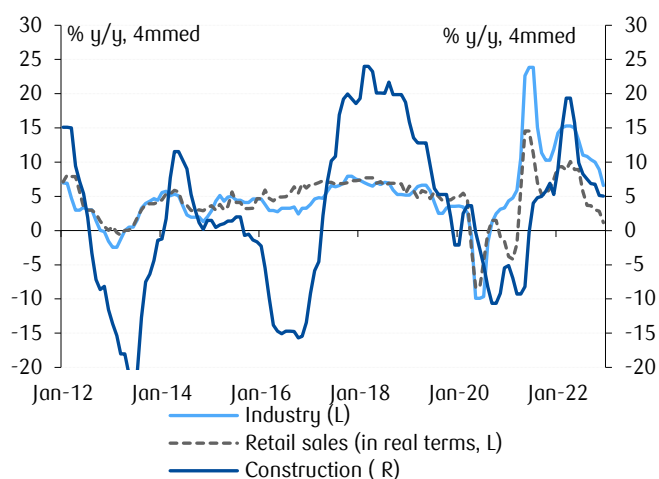


Real GDP growth – NBP projections vs. actual

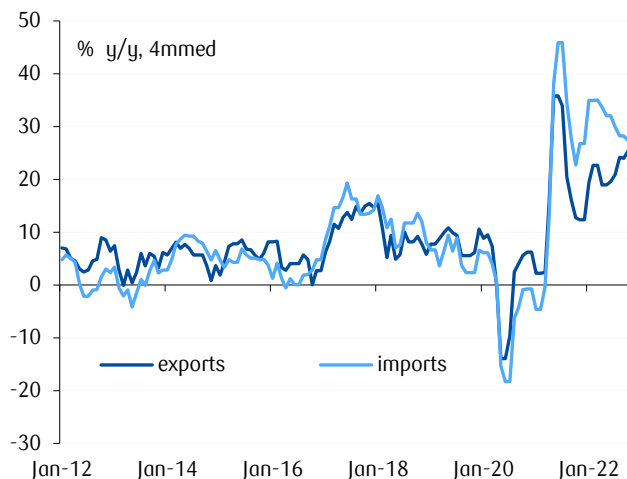


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

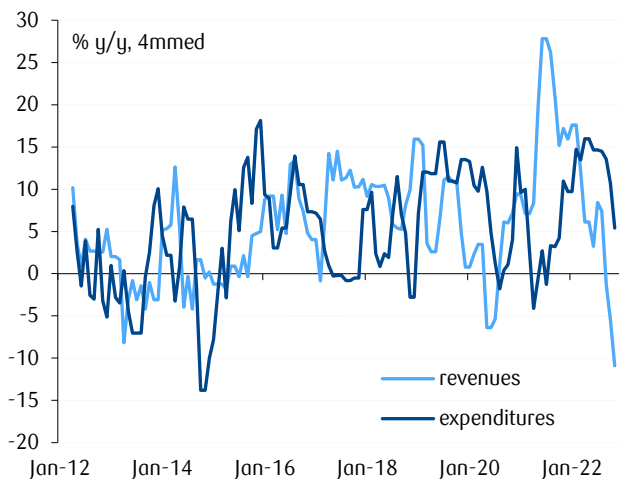
Economic activity indicators



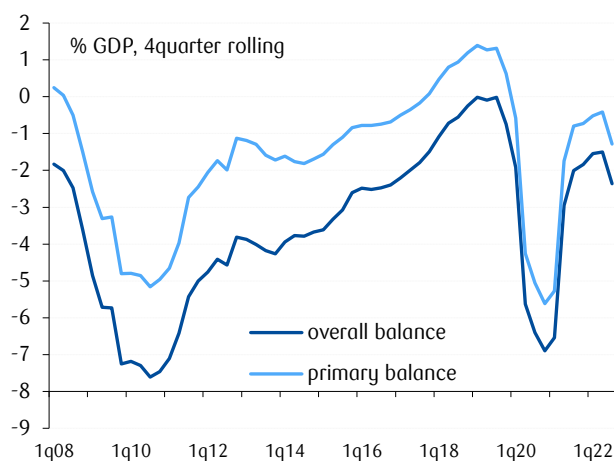
Merchandise trade (in EUR terms)



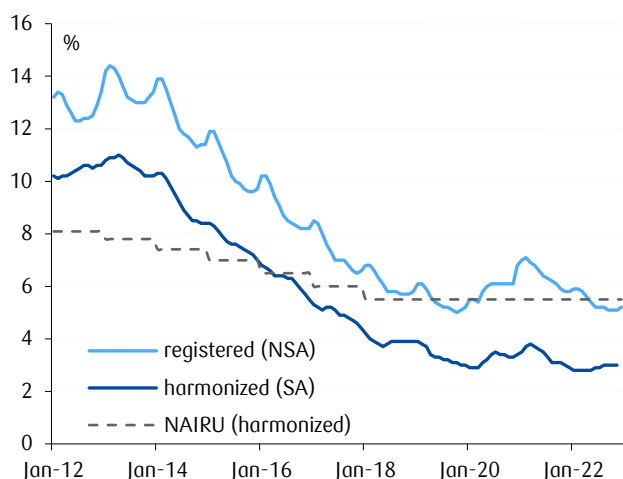
Central government revenues and expenditures*



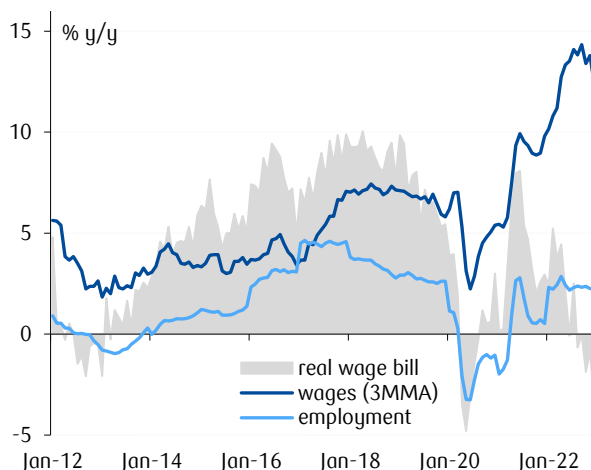
General government balance (ESA2010)



Unemployment rate

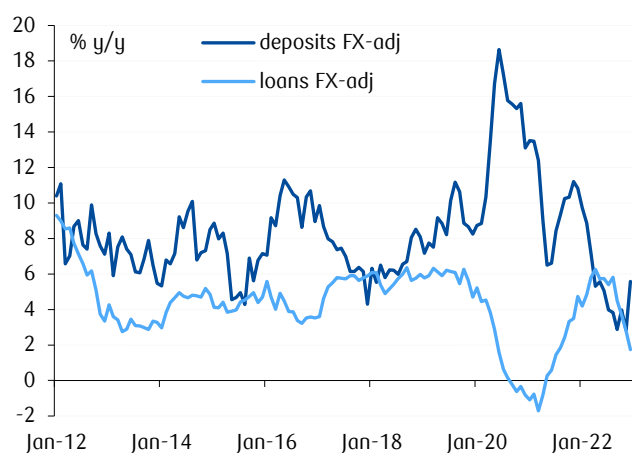


Employment and wages in the enterprise sector

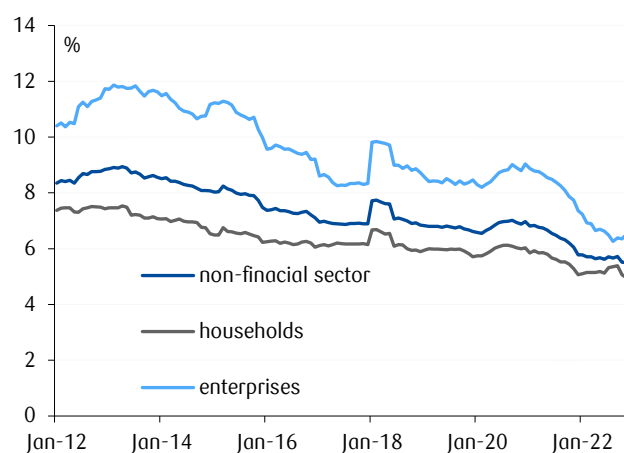


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

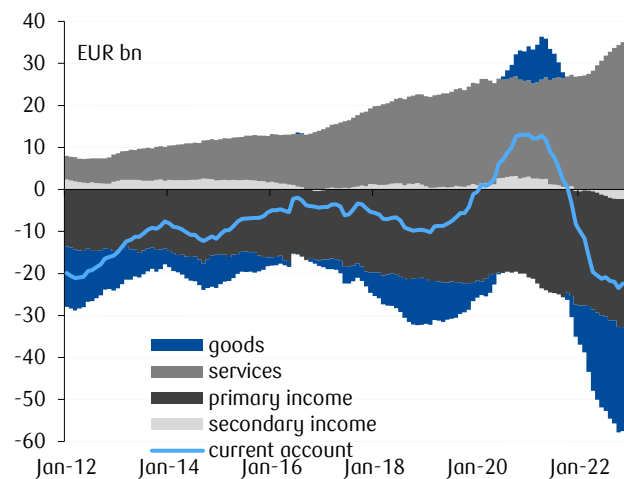
Loans and deposits



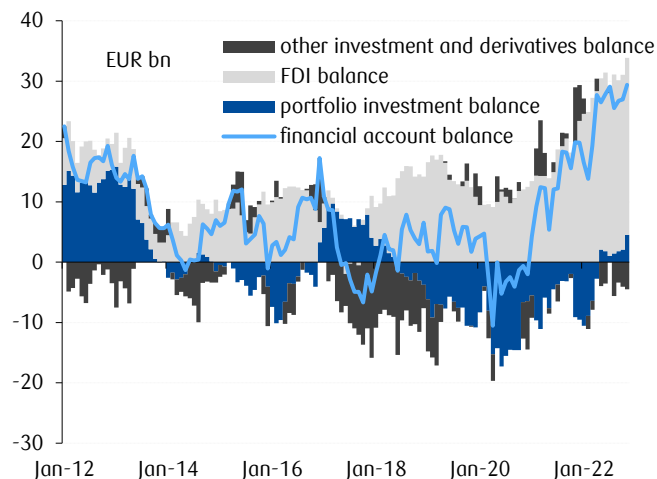
Non-performing loans (NPLs) – by sectors*



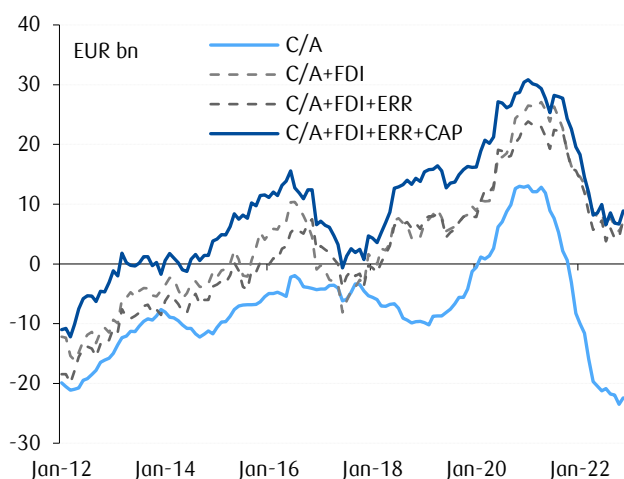
Current account balance



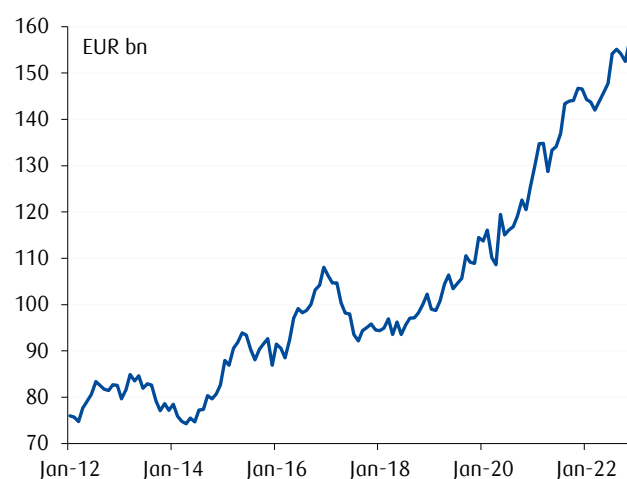
Financial account balance



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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- [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)

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