

Slowdown just ahead

TOP MACRO THEME(S):

- **Slowdown just ahead (p. 2):** Monthly data for 2q22 confirm that the slowdown in economic growth is just ahead. The y/y GDP dynamics were still strong, but the carry-over effect masks the likely GDP decline in q/q terms.

WHAT ELSE CAUGHT OUR EYE:

- **In 1q22, the public debt-to-GDP ratio fell to 52.1% from 53.8% in 2021.** At the beginning of 2022, the fiscal result was supported by solid nominal GDP growth and a growing tax base, which easily financed the y/y growth of expenditures. On Eurostat data, the debt-to-GDP ratio in Poland is lower than the EU average, and the decline in this ratio over the past year was deeper than the EU average.
- **Core inflation (less food and energy) rose in June to 9.1% y/y from 8.5% y/y in May.** On the other hand, the 0.6% m/m monthly increase was the smallest in 2022 (0.8% m/m SA). It is of course only one observation, but in our view, it can be the beginning of core inflation deceleration resulting from the economic slowdown and some easing of supply-chain pressures.
- **R.Gawin (Energy Regulatory Office) said that the increase in energy tariffs for 2023 could be unprecedented and household bills could increase several dozen percent.** In his view, the protective measures for households are justified, however, the state should not interfere in the wholesale market.
- **M3 money supply decelerated to 6.5% y/y in June from 7.6% y/y in May** as cash in circulation and corporate deposits declined in m/m terms, pointing to the upcoming economic slowdown.
- **The consumer sentiment in July unexpectedly improved slightly, but still remains close to historical lows.** Polish corporate sentiment trends worsened in July in almost all sectors surveyed by the Statistics Office.

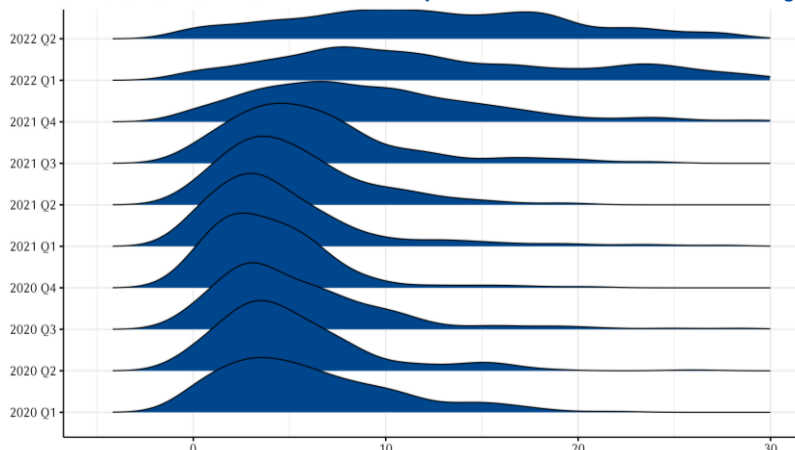
THE WEEK AHEAD:

- **July CPI inflation (flash) could show some signs of cooling and even fall for the first time since Jun 2021 (except Feb 2022 due to tax rate cuts effect).** **Unemployment rate in June** will most likely be confirmed at 4.9%.

NUMBER OF THE WEEK:

- **1.6% GDP** – general government deficit after 1q22, down from 1.9% in 2021.

Chart of the week – HICP inflation dispersion in Poland (saar, 3m avg)*



Source: Eurostat, PKO Bank Polski. * based on 263 five-digits COICOP categories, X-axis cut to <-5,30> saar in order to increase graph visibility

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	2021	2022 _†
Real GDP (%)	5.9	4.9
Industrial output (%)	15.4	12.9
Unemployment rate [#] (%)	5.4	4.7
CPI inflation ^{**} (%)	5.1	13.1
Core inflation ^{**} (%)	4.1	8.2
Money supply M3 (%)	8.9	5.6
C/A balance (% GDP)	-0.7	-3.5
Fiscal balance (% GDP)*	-1.9	-2.8
Public debt (% GDP)*	53.8	50.4
NBP reference rate ^{##} (%)	1.75	7.00
EURPLN ^{###}	4.60	4.62

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

Slowdown just ahead

- **Monthly data for 2q22 confirm that the slowdown in economic growth is just ahead. The y/y GDP dynamics was still strong, but the carry-over effect masks the likely GDP decline in q/q terms.**

Retail sales decelerated sharply in June - to 3.2% y/y (in real terms) from 8.2% y/y in May, confirming signs of a slowdown in consumer spending seen in the internal PKO data. Only the sales of basic goods supported by the influx of refugees from Ukraine, have been growing in y/y terms - food (+7.9%), pharmaceuticals and cosmetics (+10.9%) as well as clothing and footwear (+13.2%). The decline of sales in the remaining categories reflects the negative impact of high inflation on households' disposable income. The implied retail sales deflator increased in June to 16.2% y/y and was the highest in history and even higher than the CPI inflation for June (15.5% y/y).

The average wage in the enterprise sector increased in June by 13.0% y/y after an increase of 13.5% y/y in May. **For the second month in a row, wage growth in the most tight part of the labour market has not kept pace with inflation.** The wage bill in the enterprise sector increased in June by 15.4% y/y, but in real terms it decreased by 0.1% y/y. This suggests that the labour market is no longer supporting consumption and is in line with the expected consumption slowdown.

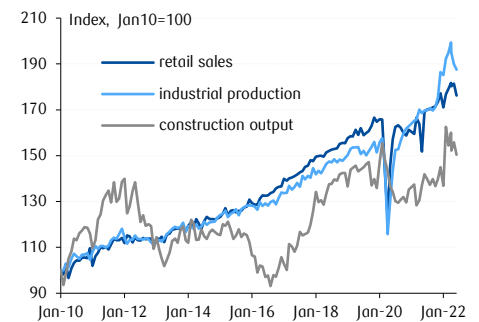
Retail sales data for 2q22 (+9.8% y/y vs 9.5% y/y in 1q22) suggest that in y/y terms the consumption dynamics could even accelerate. **However, the base effects mask the stagnation - the seasonally adjusted retail sales in 2q22 were at the same level as in 1q22, as the sales index has been systematically decreasing in recent months.** The outlook for consumption is not very rosy. Its dynamics will be hampered by the decline in real income in virtually every part of the households segment. However, its growth in aggregate terms will, in our opinion, be maintained thanks to the influx of refugees, tax changes and the use of savings accumulated during the pandemic.

The slowdown is also visible in the manufacturing sector. Industrial production in June increased (in constant prices) by 10.4% y/y (10.5% y/y sa) against 14.9% y/y (11.9% y/y sa) in May, as the period of production fall in mm (sa) terms has been extended to three months. The downturn in industry may deepen as the inventory cycle unfolds in line with the "bull-whip effect". In previous months, companies stocked up "just in case" generating additional demand. Currently, the feedback loop works in the opposite direction - the weakening demand for industrial products is multiplied by the decline in the industry's demand for new inventories. Companies are trying to reduce abundant inventory, which on the one hand may lead to a decrease in margins, and on the other hand, a weakening of price pressure.

Construction and assembly production increased by 5.9% y/y in June after an increase of 13% y/y in May. The building construction segment is still the top performer (+15.2% y/y in June), while civil engineering is growing at a moderate pace (+5% y/y) waiting for the start of investments co-financed by the EU funds.

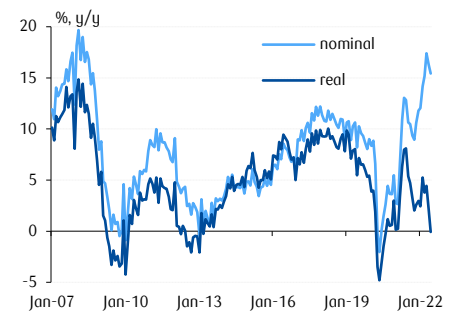
Monthly data for 2q22 confirm that the slowdown in economic growth is just ahead. Looking at the quarterly aggregates for the three main sectors (see margin table) we see that in q/q terms the GDP could have already declined in 2q22, but the final result will depend on the sectors unobserved on the monthly basis (services) and the dynamics of the inventory cycle reversal.

Economic activity in monthly data



Source: GUS, PKO Bank Polski.

Wage bill in the enterprise sector



Source: GUS, PKO Bank Polski.

Quarterly activity in the main sectors of the economy

%	1q22		2q22	
	y/y	y/y	y/y	q/q
Industrial production	17.1	12.7	-2.4	
Construction	20.4	9.5	-3.9	
Retail sales	9.8	9.5	0.0	

Source: GUS, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 25 July						
POL: Unemployment Rate (Jun)	9:00	%	5.1	4.9	4.9	We expect that the final StatOffice data will confirm Labor Ministry estimate
GER: Ifo Business Climate Index (Jul)	9:00	pts.	92.3	90.5	--	--
Tuesday, 26 July						
HUN: MNB meeting (Jul)	13:00	%	9.75	10.5	--	--
USA: S&P CoreLogic CS 20-City (May)	14:00	% y/y	21.2	21.0	--	--
USA: Consumer confidence (Jul)	15:00	pts.	98.7	97.0	--	--
USA: New home sales (Jun)	15:00	ths.	696	675	--	--
Wednesday, 27 July						
EUR: M3 money supply (Jun)	9:00	% y/y	5.6	5.3	--	--
USA: Trade Balance (Jun)	13:30	bn USD	-104.0	-102.9	--	--
USA: Durable goods orders (Jun, flash)	13:30	% m/m	0.8	-0.5	--	--
USA: Fed meeting (Jul)	19:00	%	1.50-1.75	2.25-2.50	2.25-2.50	--
Thursday, 28 July						
EUR: Economic Sentiment Indicator (Jul)	10:00	pts.	104.0	101.0	--	--
EUR: Consumer Confidence (Jul, final)	10:00	pts.	-23.6	-27	--	--
GER: CPI inflation (Jul, flash)	13:00	% y/y	7.6	7.6	--	--
GER: HICP inflation (Jul, flash)	13:00	% y/y	8.2	--	--	--
USA: GDP growth (2q)	13:30	%q/q saar	-1.6	0.5	--	--
USA: Personal consumption (2q)	13:30	%q/q saar	1.8	1.2	--	--
USA: Initial Jobless Claims (Jul)	13:30	ths.	251	--	--	--
Friday, 29 July						
GER: Unemployment Rate (Jul)	8:55	%	5.3	5.3	--	--
POL: CPI inflation (Jul, flash)	9:00	% y/y	15.5	--	<15.5	Due to lower fuel prices, slower growth of food prices as well as potential slowdown of core inflation we forecast that CPI has already reached its peak in y/y terms.
GER: GDP growth (2q)	9:00	% y/y	4.0	2.0	--	--
EUR: CPI inflation (Jul)	10:00	% y/y	8.6	8.8	--	--
EUR: Core inflation (Jul, flash)	10:00	% y/y	3.7	--	--	--
EUR: GDP growth (2q)	10:00	% y/y	5.4	3.4	--	--
USA: Personal Income (Jun)	13:30	% m/m	0.5	0.5	--	--
USA: Personal spending (Jun)	13:30	% m/m	0.2	0.8	--	--
USA: PCE Deflator (Jun)	13:30	% y/y	6.3	6.6	--	--
USA: Core PCE inflation (Jun)	13:30	% y/y	4.7	4.8	--	--
USA: University of Michigan sentiment (Jul, final)	15:00	pts.	50.0	51.1	--	--

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	"So far I have believed, and I maintain this, that there will be no real recession in Poland, maybe a technical one. Instead, I believe that we will have textbook stagflation. That means all-time high inflation and slightly positive, near-zero GDP growth. This is the worst-case scenario for the current Monetary Policy Council, because you don't really know what to do about it." (15.07.2022, DGP, PAP)
H. Wnorowski	4.2	"It seems that we still have perhaps one or a few interest rate hikes ahead of us, but they seem to be minor already. (...) It has been said that perhaps (inflation - ed.) will exceed even 20 percent. I personally do not consider such a scenario, I do not see such a threat. We're at 15.5 percent, and I think, we're still ahead of the July reading, which I think will maybe still be about 1 point, maybe less than 1 point, higher. (...) The highest will be the August reading and we will start to go down the other way." (20.07.2022, TVP Bialystok, PAP)
A. Glapinski	3.4	"Right now we have the highest interest rates and the highest inflation. (...) If there are any more rates increases it will be one by 25bp. (15.07.2022, informal conversation with political activist in Sopot, Pomorskie posted on Youtube) "Lowering inflation that has been caused by strong supply-side shocks has to be done gradually, especially as a marked slowdown of economic growth is expected, so as to avoid generating excessive social costs and particularly high unemployment. (...) Hence, the monetary policy will still be conducted in a responsible way to lower inflation and at the same time maintain balanced economic growth. (21.07.2022, PAP)
R. Sura**	3.4	"We should adjust the scale of hikes to inflowing data on inflation and business sentiment, as well as to forecasts. Hence, the Council does not set the target interest rate level or the time frame for tightening. It would be difficult even without the additional uncertainty tied to the war in Ukraine." (24.05.2022, PAP).
I. Dąbrowski	3.1	" In my opinion, if there will be another rate hike, it will be rather small - on a comparable scale to the last one (50bp - ed.) or even lower. If the decision depended solely on me, I would not raise rates at all anymore, or at most once by 25 bps. " (19.07.2022, PAP)
C. Kochalski	3.1	"The room for rate hikes is in July, possibly also in September. (...) 50-75 bps are the very likely ranges of the pace of change of interest rates. (...) We expect inflation peak to take place in Q3." (10.06.2022, PAP).
P. Litwiniuk	2.9	" The Council must recognize the future risks of an economic slowdown or even recession. Therefore, its future decisions should be taking into account the principles of the medium-term transmission mechanism. This approach leads us to consider hikes of a smaller scale, but with the possibility of continuing their cycle at future meetings this year. (...) In my view, there is still room for further tightening of monetary policy by the Monetary Policy Council. Such a direction may be supported by persistent and rising core inflation, as well as the exchange rate situation. " (19.07.2022, Business Insider, PAP)
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).
(Vacant places)	--	--

*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. **R.Sura has resigned from the position of member of the Monetary Policy Council. Polish Senate accepted the resignation and will appoint a new member no sooner than on Sept 7th.

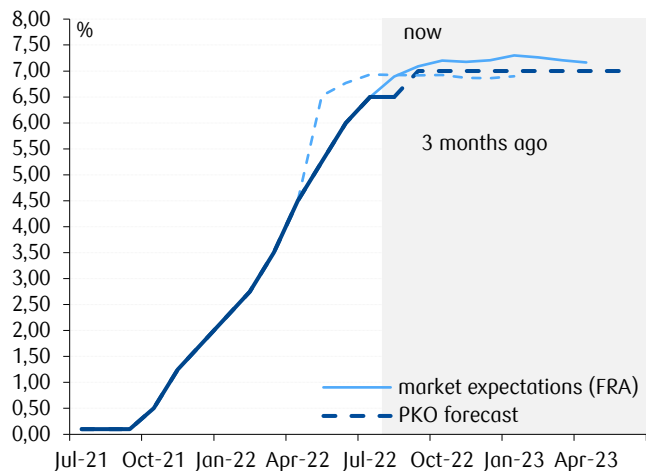
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	21-Jul	21-Aug	21-Sep	21-Oct	21-Nov	21-Dec	21-Jan	21-Feb	21-Mar	21-Apr
WIBOR 3M/FRA†	7.00	7.09	7.29	7.40	7.38	7.41	7.50	7.46	7.41	7.37
implied change (b. p.)		0.09	0.29	0.40	0.38	0.41	0.50	0.46	0.41	0.37
MPC Meeting	7-Jul	-	7-Sep	5-Oct	9-Nov	7-Dec	-	-	-	-
PKO BP forecast*	6.50	6.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
market pricing*		6.59	6.79	6.90	6.88	6.91	7.00	6.96	6.91	6.87

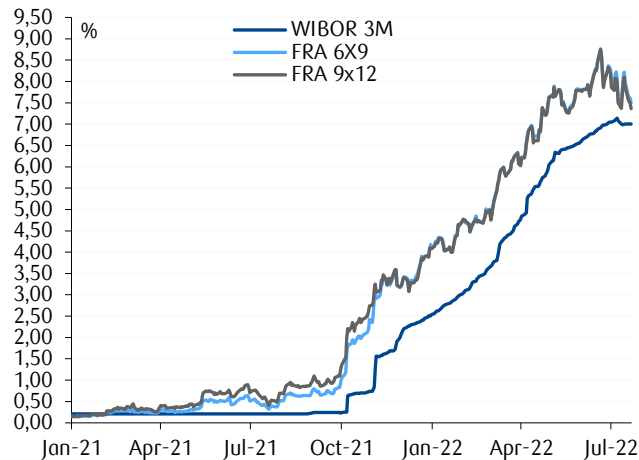
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

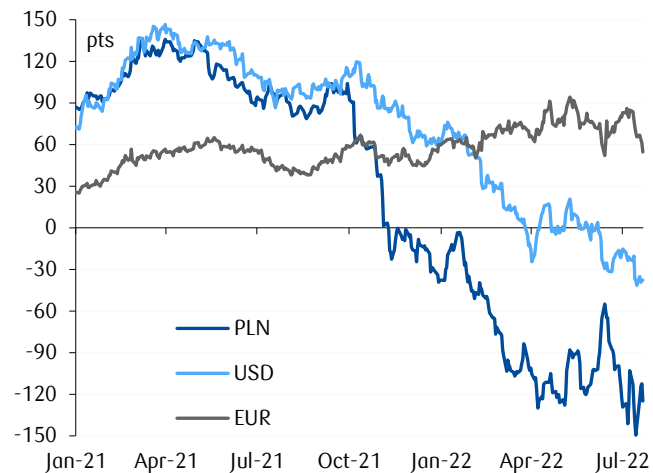
NBP policy rate: PKO BP forecast vs. market expectations



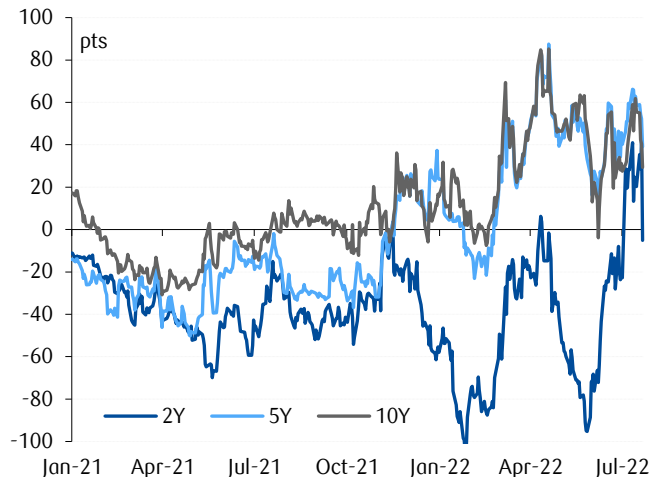
Short-term PLN interest rates



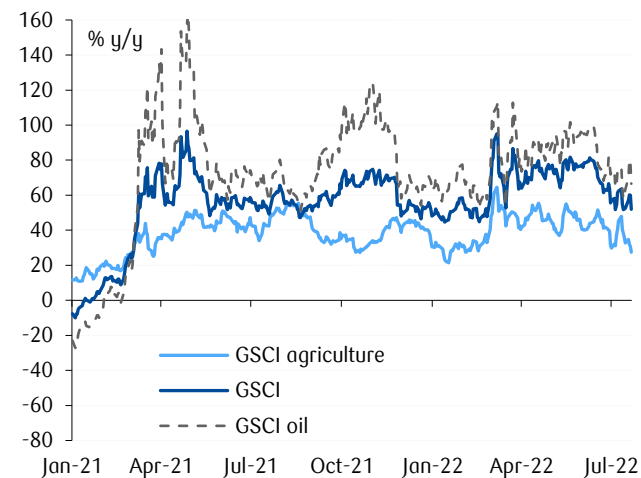
Slope of the swap curve (spread 10Y-2Y)*



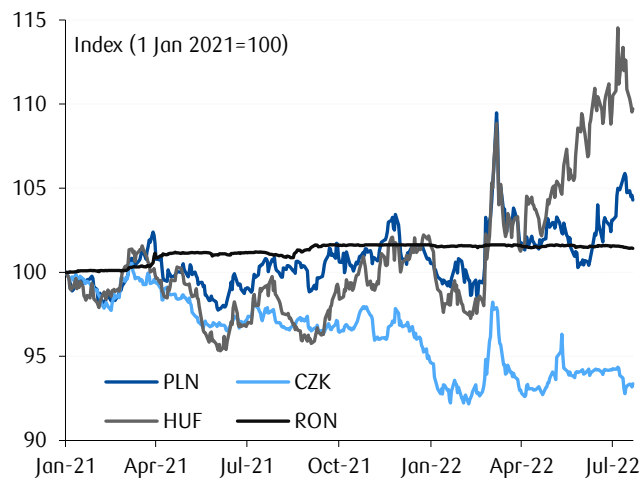
PLN asset swap spread



Global commodity prices (in PLN)

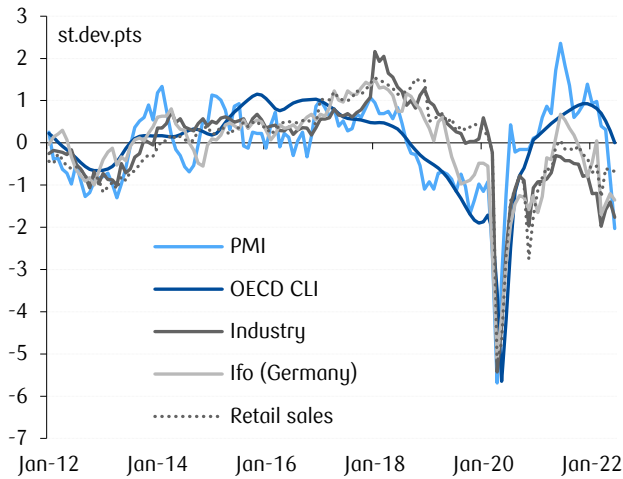


Selected CEE exchange rates against the EUR

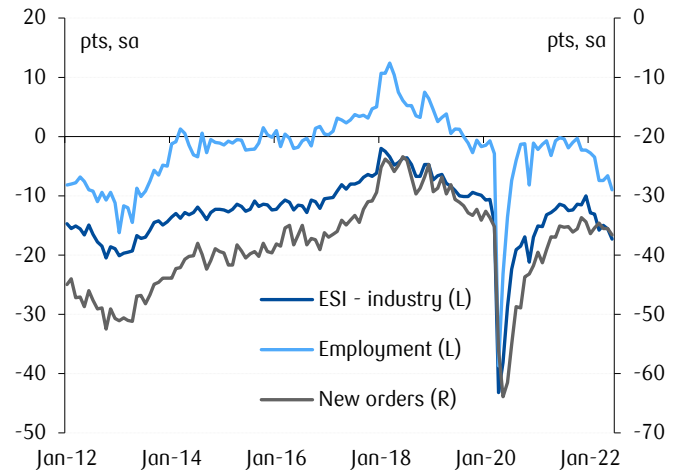


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

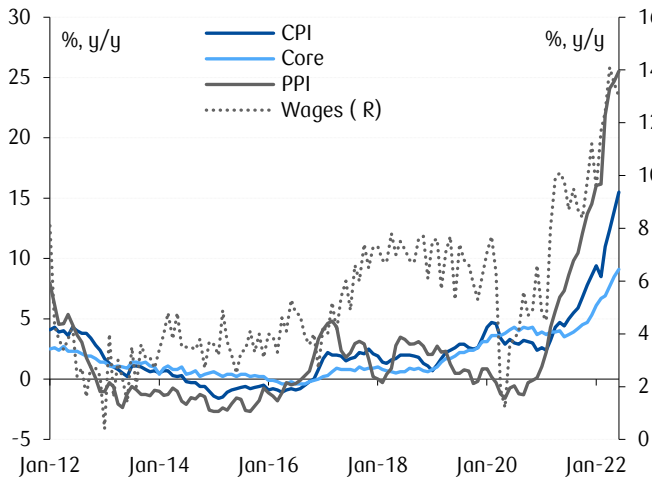
Economic sentiment indicators



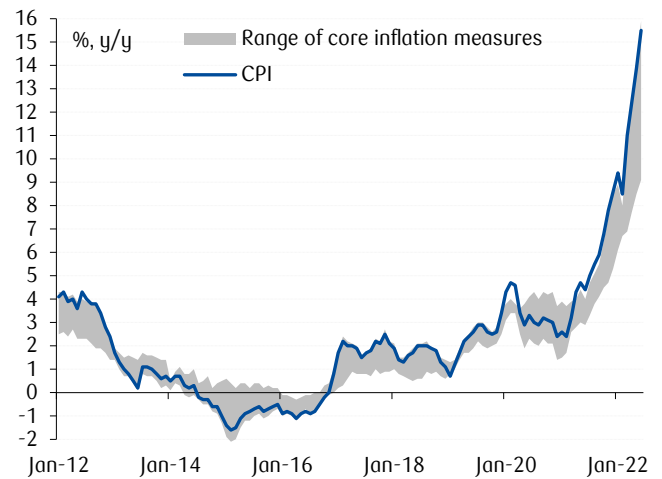
Poland ESI for industry and its components



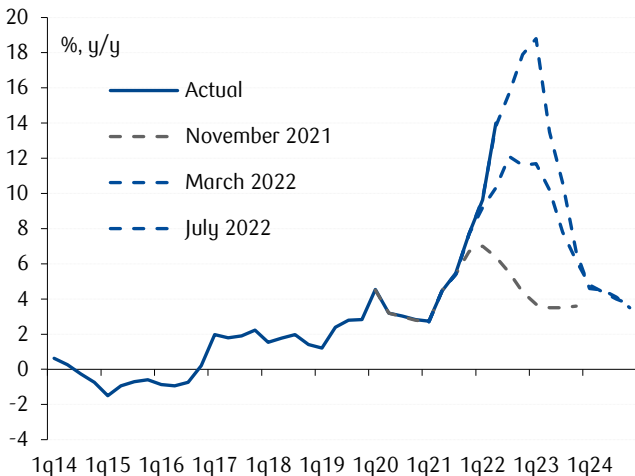
Broad inflation measures



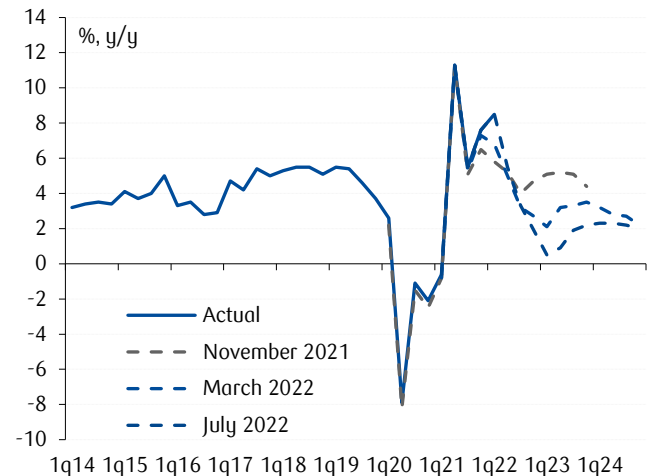
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

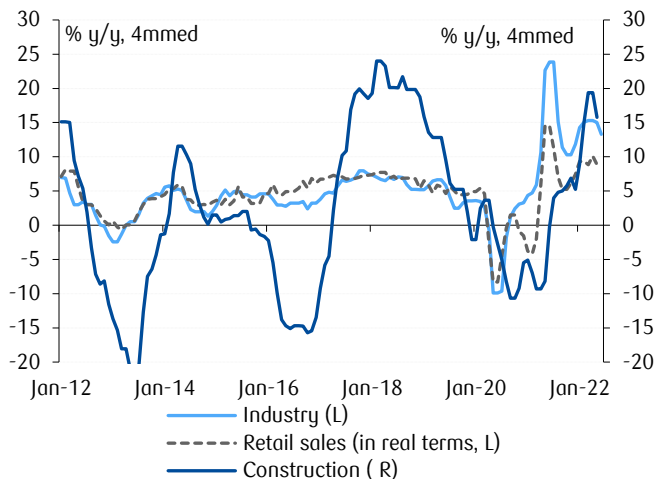


Real GDP growth – NBP projections vs. actual

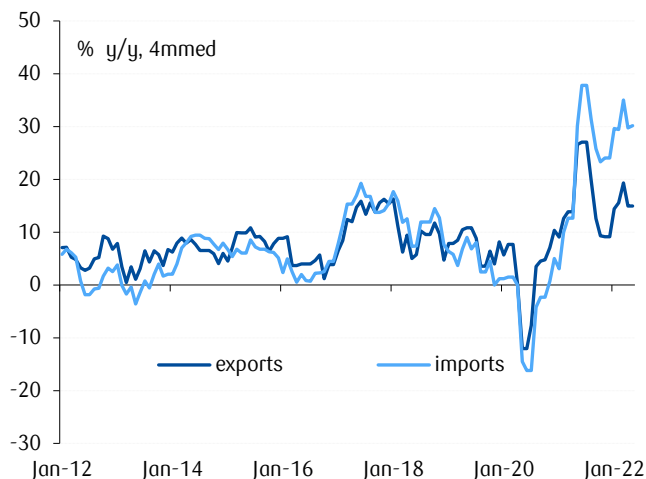


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

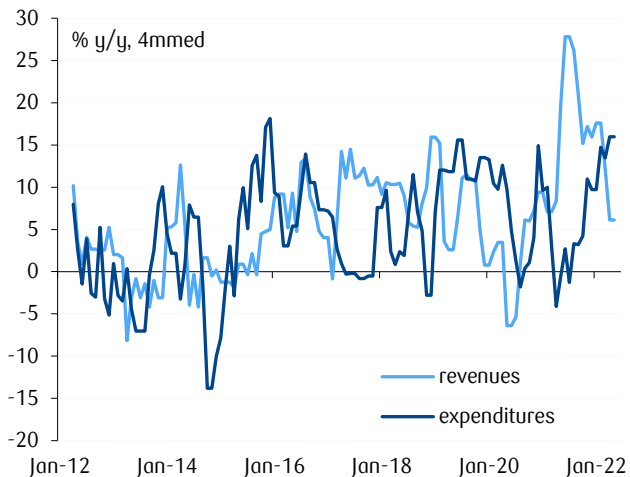
Economic activity indicators



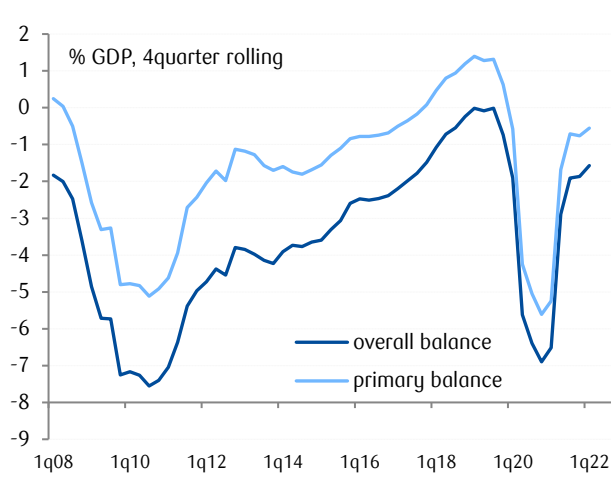
Merchandise trade (in EUR terms)



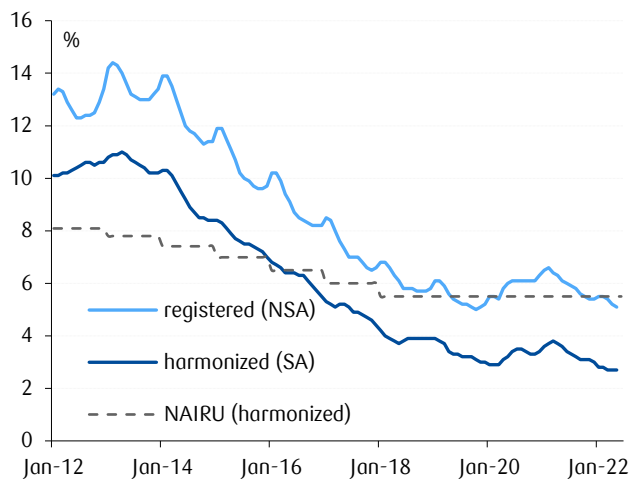
Central government revenues and expenditures*



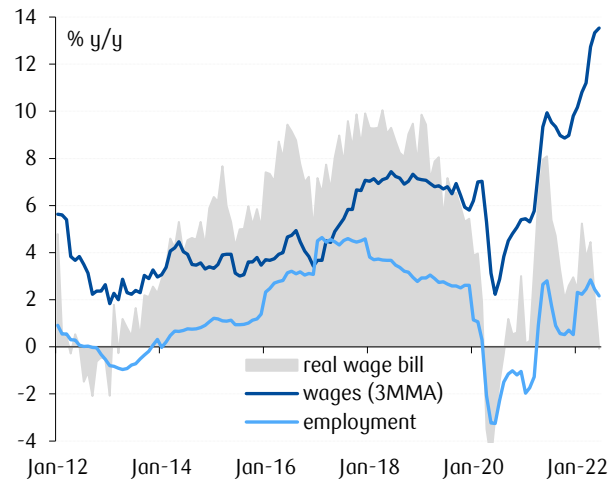
General government balance (ESA2010)



Unemployment rate

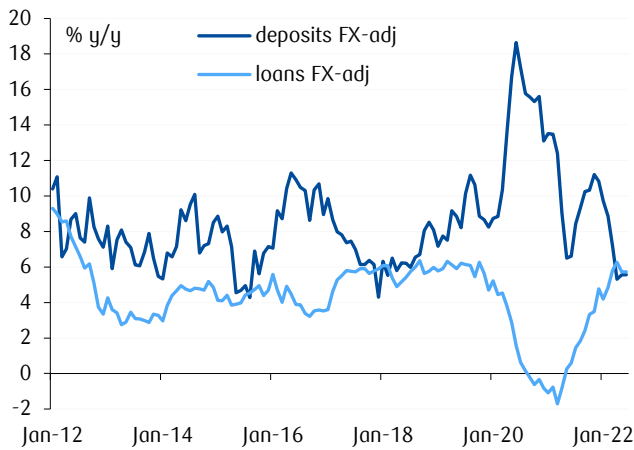


Employment and wages in the enterprise sector

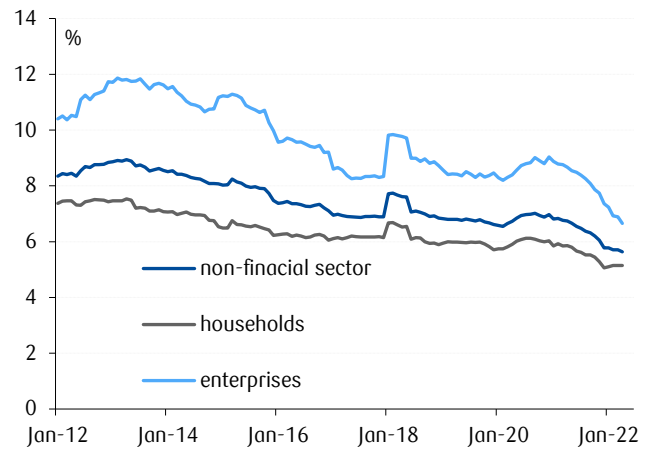


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

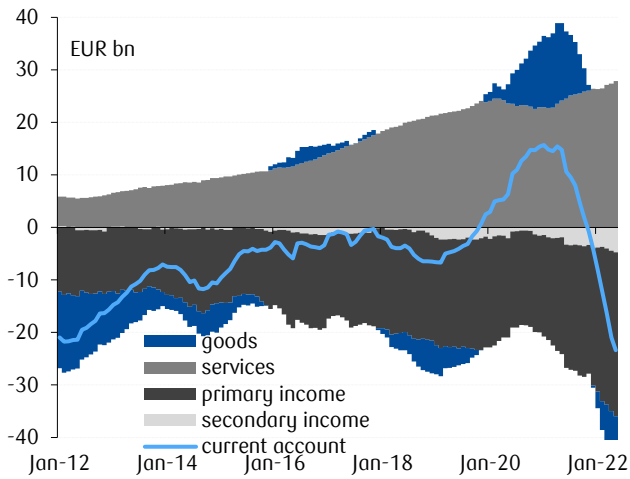
Loans and deposits



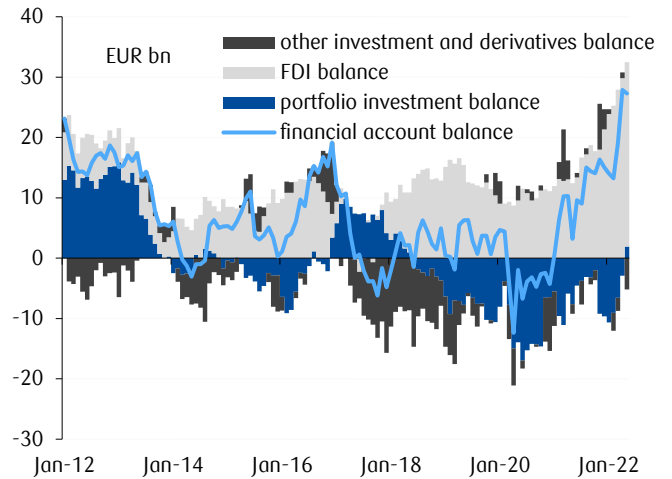
Non-performing loans (NPLs) - by sectors*



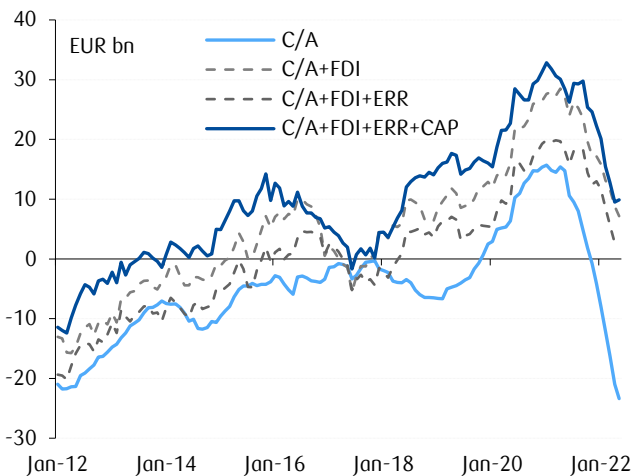
Current account balance



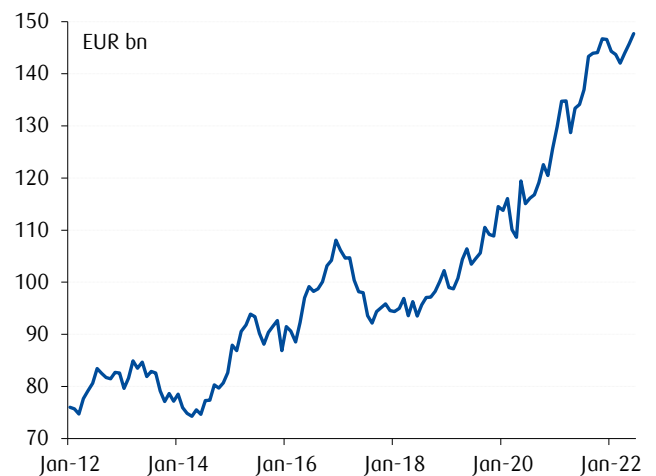
Financial account balance



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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