

Slow start of 3q23

TOP MACRO THEME(S):

- **July was still on holiday mode (p.2)** – Monthly data show that the start of 3q23 was slightly disappointing, however, posing no threat to expected economic rebound.

WHAT ELSE CAUGHT OUR EYE:

- **Despite economic downturn, 2q23 brought higher profitability of nonfinancial enterprises**, which increased to 6,0% against 4,6% in 1q23. Biggest improvement was observed in the case of an IT sector (+6.2pp y/y) and HoReCa (+3.4pp y/y). Profitability declined in manufacturing (by 0.7pp y/y), however, it was higher than in 1q23 which makes us believe that the worst is behind this sector. Investment of large enterprises (50+ employees) in 2q23 increased by 13.6% against 7.2% in 1q23, which we link to accelerating energy transition of the Polish economy, high accumulated profits and easing of supply chain disruptions in the automotive sector.
- **M3 aggregate increased in July by 8.0% y/y, faster than in June.** Volume of mortgage loans increased m/m for a 2nd consecutive month, while the scale of its yearly fall declined pointing to a turning point in the credit market.
- **According to a draft of Budget Act for 2024, central budget deficit in 2024 should stand at 4.5% GDP against 2.7% GDP planned in 2023.** This does not change our forecast for the overall fiscal balance (ESA) of fiscal deficit at 4.8% GDP in 2023 and 4.0% GDP in 2024, considering announced plans of reducing spending from off-budget funds and usually lower than planned implementation of budget expenditures in previous years. **The budget deficit in the Jan-Jul period amounted to PLN 13.1 billion, little changed since June.** The data indicate growing debt servicing expenses (PLN 50.1 bln in the last 12 months) and a slow rebound in the dynamics of VAT and PIT revenues (12 months rolling window) with a steady decline in CIT revenues growth.

THE WEEK AHEAD:

- Most important data next week will be the **flash estimate of CPI inflation in August**. We see inflation right on the edge of 10%, however, available data suggest that both food and fuel prices may be a source of surprise. **2nd estimate of GDP in 2q23** will bring information on its structure, though it is widely expected that consumption was the weakest component. **PMI will likely show a turning point.**

NUMBER OF THE WEEK:

- **20.0%** – y/y increase in investment in machinery and equipment among big enterprises (50+ employees) registered in 2q23, the highest since 2014

CHART OF THE WEEK: Changes in mortgage PLN loans



Source: NBP, PKO Bank Polski

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	2022	2023
Real GDP (%)	5.1	0.7
Industrial output (%)	10.5	-0.9
Unemployment rate# (%)	5.2	5.2
CPI inflation** (%)	14.4	12.0
Core inflation** (%)	9.1	10.5
Money supply M3 (%)	5.6	7.2
C/A balance (% GDP)	-3.0	1.0
Fiscal balance (% GDP)*	-3.7	-4.8
Public debt (% GDP)*	49.1	49.2
NBP reference rate## (%)	6.75	6.00
EURPLN###	4.69	4.46

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

July was still on holiday mode

- Polish economy in July was still a little lethargic, as monthly data brought some disappointment. In particular, industrial and construction output turned out weaker than expected. On a more positive note disinflation on the producers' front was more pronounced, with PPI turning negative for the first time since 2020. Meanwhile labour market remains strong, but provides further signs that wage pressure is easing.

Industrial production (in constant prices) fell by 2.7% y/y in July against -1.1% y/y in June and more profoundly than expected. The level of production (after seasonal adjustment) has been in a downward trend since the beginning of the year. Weakness was evident in a number of industries – y/y declines were recorded in 24 out of 34 industry sectors, indicating a widespread downturn. Meanwhile, the bright star of the domestic industry was the automotive branch, whose production in annual terms increased by 15% y/y, and the momentum (average 3m change in % m/m after seasonal adjustment) remained positive. As in the previous months, the producers of durable consumer goods (including furniture) and intermediate goods, in particular in energy-intensive industries (chemical, metal and mineral production), are in the worst situation.

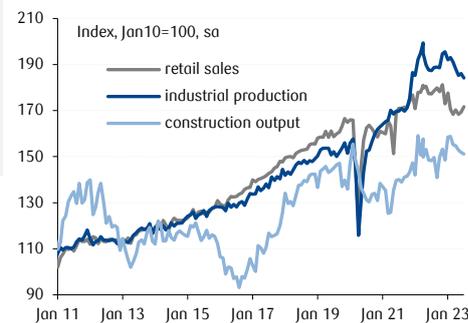
Weak economic conditions in the industry sector support further disinflation. In July, producer price inflation (PPI) fell to -1.7% y/y, marking y/y fall in prices for the first time since November 2020. The annual deflation is a confirmation of processes that have been taking place for a long time – decreases of prices in monthly terms have been occurring continuously for 6 months. In manufacturing, deflationary processes (-5.8% y/y) are even stronger – in the last 12 months the price level has decreased (m/m) 10 times.

Construction and assembly output increased weaker than anticipated, by 1.1% y/y in July after a slight increase in June. The previous trends persist – high interest rates weaken the building construction segment (-8.8% y/y), and the last year of project implementation under the previous EU financial perspective supports civil engineering (+11.8% y/y).

On the consumers' side, retail sales decreased by 4.0% y/y in real terms. Thus, the decline in sales slowed down for the third month in a row. The y/y decline in sales was quite widespread and was observed in all categories published by the Statistics Poland, excluding motor vehicles (+3.8% y/y). Seasonally adjusted sales increased by 1.3% m/m, implying that retail sales growth should stay on upward trajectory. This is also supported by consumer confidence indicators which improved in August (both current and leading indicators). The leading indicator is already at its highest since September 2021. Assessments of the current situation are slightly behind, but they also show a clear improvement. Consumer spending should also be supported by resilient labour market.

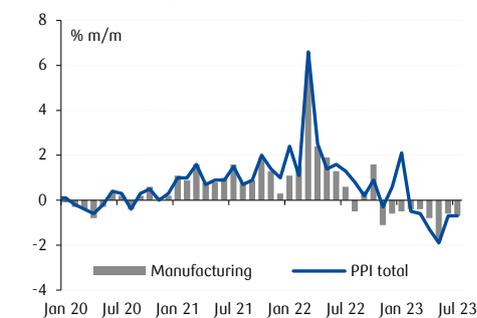
The average wage in the enterprise sector increased by 10.4% y/y in July vs. 11.9% y/y in June, and weaker than expected, which means that after the June increase in real terms wages decreased again (by 0.3% y/y). At the same time, it can be expected that July will turn out to be a temporary break in the upward trend of real wages as inflation continues to fall. This is supported by the fact that the main source of surprise in July reading stemmed from smaller than anticipated bonus payments in the mining sector. The data also suggests that

Economic activity indicators



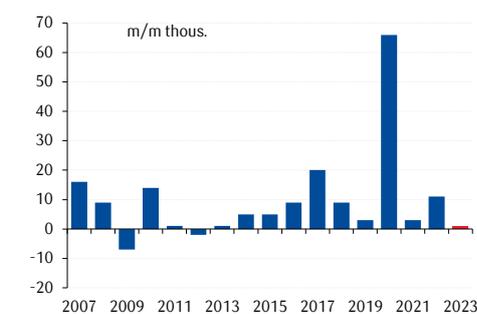
Source: Statistics Poland, PKO Bank Polski.

Monthly PPI growth



Source: Statistics Poland, PKO Bank Polski

Change in employment in the enterprise sector in July



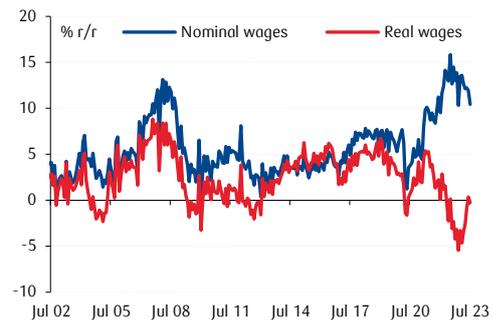
Source: Statistics Poland, PKO Bank Polski

the scale of impact of the minimum wage increase on the wage grid is more limited than expected.

The average employment in enterprises increased by 0.1% y/y and by 1.5 thousand jobs compared to June, which is a relatively poor result considering seasonal trends. In the employment data we see a further effect of weakening labor demand. According to the Ministry of Family and Social Policy, the number of job offers in July decreased by 13.1% m/m. At the same time, the demand for labor remains diversified, with the highest percentage of vacancies occurring in large enterprises and, in terms of sectors, in transport.

The weakening demand for labor is accompanied by a limited impact on the unemployment rate, which stabilised at 5,0% in July. Number of unemployed in the registers decreased in July to 782.4 thous. and was the lowest since 1990. Monthly fall in the number of unemployed was relatively weak as for this part of the year. However, we do not see any signs of progressive layoffs in the data and deterioration of the situation on the labor market - the number of unemployed people made redundant due to the reasons of the workplace was close to historical minimum. The number of people who have been unemployed for more than a year is decreasing. The August consumer sentiment survey also did not signal any deterioration of the situation in the labor market, while fears of unemployment remain relatively small.

Average wage in the enterprise sector in July



Source: Statistics Poland, PKO Bank Polski

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 28 August						
EUR: M3 money supply (Jul)	9:00	% y/y	0.6	0.0	--	--
Tuesday, 29 August						
HUN: MNB meeting (Aug)	13:00	%	13.0	13.0	13.0	--
USA: S&P CoreLogic CS 20-City (Jun)	14:00	% y/y	-1.7	--	--	--
USA: JOLTS Report (Jul)	15:00	mln	9.582	--	--	--
USA: Consumer confidence (Aug)	15:00	pts.	117	116.6	--	--
Wednesday, 30 August						
EUR: Consumer Confidence (Aug, final)	10:00	pts.	-15.1	-16.0	--	--
EUR: Economic Sentiment Indicator (Aug)	10:00	pts.	94.5	93.7	--	--
GER: CPI inflation (Aug, flash)	13:00	% y/y	6.2	6.0	--	--
GER: HICP inflation (Aug, flash)	13:00	% y/y	6.5	6.2	--	--
USA: ADP National Employment (Aug)	13:15	thous.	324	200	--	--
USA: Trade Balance (Jul)	13:30	--	--	--	--	--
USA: Trade Balance (Jul)	13:30	bln USD	-87.8	-90.0	--	--
USA: GDP growth (2q)	13:30	%k/k saar	2.4	2.4	--	--
USA: Personal consumption (2q)	13:30	%k/k saar	1.6	1.9	--	--
Thursday, 31 August						
GER: Retail sales (Jul)	7:00	% y/y	0.1	-1.4	--	--
GER: Unemployment Rate (Aug)	8:55	%	5.6	5.7	--	--
POL: CPI inflation (Aug, flash)	9:00	% y/y	10.8	10.0	10.0	Both food and fuel prices may be a source of surprise. Consumption was likely the main drag on activity.
POL: GDP growth (2q)	9:00	% y/y	-0.3	-0.5	-0.5	
EUR: HICP inflation (Aug)	10:00	% y/y	5.3	5.1	--	--
EUR: Core inflation (Aug, flash)	10:00	% y/y	5.5	5.3	--	--
USA: Initial Jobless Claims (Aug)	13:30	thous.	230	--	--	--
USA: Personal Income (Jul)	13:30	% m/m	0.3	0.3	--	--
USA: Personal spending (Jul)	13:30	% m/m	0.5	0.7	--	--
USA: PCE Deflator (Jul)	13:30	% y/y	3.0	3.3	--	--
USA: Core PCE inflation (Jul)	13:30	% y/y	4.1	4.2	--	--
Friday, 1 September						
CHN: Manufacturing PMI (Aug)	2:45	pts.	49.2	49.5	--	--
POL: Manufacturing PMI (Aug)	8:00	pts.	43.5	44.4	43.7	We expect that PMI is at a turning point.
GER: Manufacturing PMI (Aug, final)	8:55	pts.	38.8	39.1	--	--
EUR: Manufacturing PMI (Aug, final)	9:00	pts.	42.7	43.7	--	--
USA: Non-Farm Payrolls (Aug)	13:30	thous.	187	168	--	--
USA: Unemployment Rate (Aug)	13:30	%	3.5	3.5	--	--
USA: Average Earnings (Aug)	13:30	% y/y	4.4	4.3	--	--
USA: Manufacturing PMI (Aug, final)	14:45	pts.	49.0	--	--	--
USA: ISM Manufacturing (Aug)	15:00	pts.	46.4	46.9	--	--

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	"Any talk about cuts is harmful to the economy today (...) Today, I consider the level of our interest rates to be insufficient." (10.08.2023, PAP)
L. Kotecki	4.8	"Lowering interest rates at this stage would be a mistake. And I hope it doesn't happen. Behind us is only the first month of core inflation stabilization. The July Inflation Report indicates that we are missing the target even more than it seemed in March, in the previous report." (18.07.2023, Money.pl via PAP)
P. Litwiniuk	3.7	"ECB and Fed rates are rising. The latest economic thought on combating inflation, in particular in the conditions of persistent core inflation, does not encourage to ease the parameters of monetary policy in the situation in which the Polish economy finds itself now. Especially as it is to some extent mitigated by the mechanisms of fiscal policy - I am talking about shields, credit holidays, legislation on, for example, cheap loans. (...) Today, the most cautious attitude is wait&see, i.e. to wait and see what September and October will bring." (8.08.2023, PAP).
H. Wnorowski	2.7	"This year I am counting on December, November inflation data, because in December there may not be a significant progress, I am counting on reading with number 7 as a first digit, maybe 7.9% maybe 8.1%. These are the numbers that I am expecting." (22.08.2023, PAP)
A. Glapinski	2.4	"The MPC has decided that we are ending the cycle of rate hikes. Officially, we were in the tightening cycle, we were ready all the time to raise rates, now we are putting this weapon aside. No one expects something like this to happen anytime soon (...) Of course, if something happens, in the emergency mode, we can take that action, but we are no longer in that mode" (7.07.2023, NBPtv, PAP)
C. Kochalski	2.4	"In the light of the current data and information, a room for potential discussion of [rate] cuts may appear in some time, as we have already ended the hikes cycle. The very calendar indicates it could be after the summer vacation at the earliest. (...) We're still before a potential discussion on rate cuts, which sooner or later needs to happen." (13.07.2023, Interia.pl via Bloomberg).
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 my opinion, if the conditions are favourable, i.e. if we see a rapid drop in inflation, if it is a long-term downward trend, the MPC will have arguments to carefully discuss interest rate cuts, perhaps even after vacation. Of course, I must make a caveat here (...) everything depends on the incoming data and information" (17.07.2023, Business Insider, PAP, PKO transl.)
G. Maslowska	2.1	"Theoretically, it is possible to start the phase of interest rate cuts even before the newest inflation and GDP projection appears. (...) if, for example, in September or October, the MPC members will decide that the incoming data are so convincing that it is worth deciding on the first cut before the projection appears, I think that it would be understandable for participants of economic life" (18.07.2023, PAP)
I. Dabrowski	1.9	"(...) I think that there is a high probability that interest rates will remain at their current level until the end of September. If the MPC was to consider a motion to cut interest rates, it would rather happen in October (...) Although if we saw a rapid decline of the index by another 5p. in the summer months, and we would find ourselves at clearly single-digit inflation levels, I cannot rule out that this will happen in September." (26.06.2023, 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.

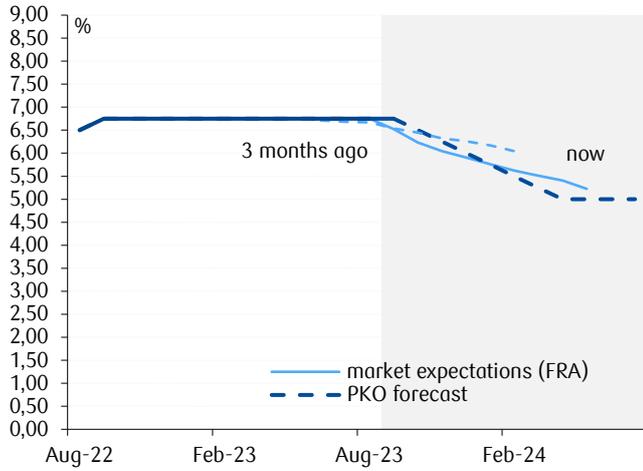
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	24-Aug	24-Sep	24-Oct	24-Nov	24-Dec	24-Jan	24-Feb	24-Mar	24-Apr	24-May
WIBOR 3M/FRA†	6.69	6.42	6.12	5.92	5.70	5.50	5.32	5.20	5.05	4.87
implied change (b. p.)		-0.28	-0.57	-0.78	-1.00	-1.19	-1.38	-1.49	-1.64	-1.83
MPC Meeting	-	6-Sep	4-Oct	8-Nov	6-Dec	-	-	-	-	-
PKO BP forecast*	6.75	6.75	6.50	6.25	6.00	5.75	5.50	5.25	5.00	5.00
market pricing^		6.48	6.18	5.98	5.86	5.71	5.58	5.46	5.31	5.13

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

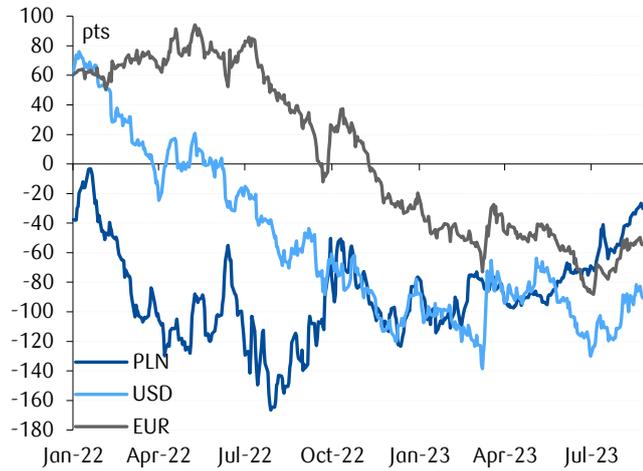
NBP policy rate: PKO BP forecast vs. market expectations



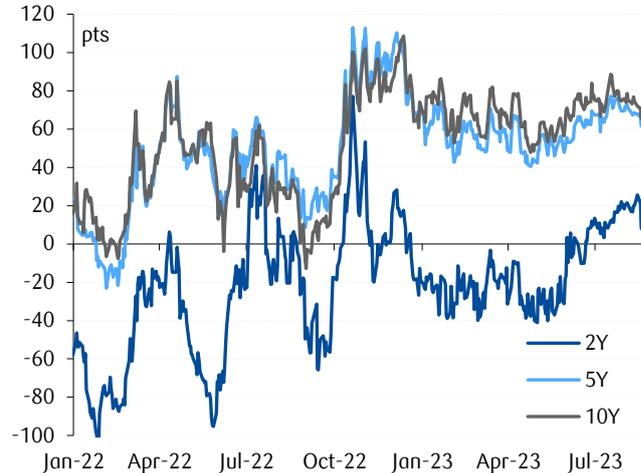
Short-term PLN interest rates



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



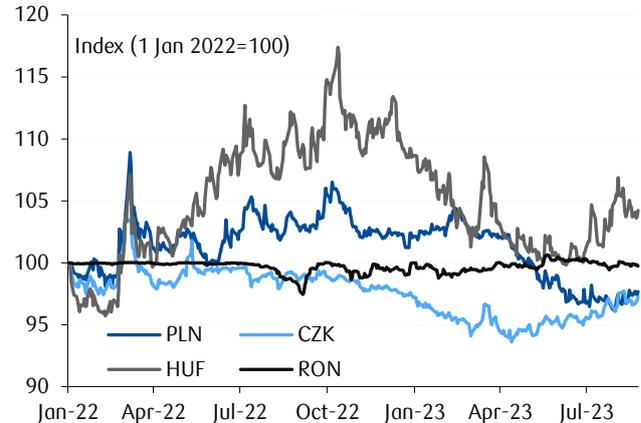
PLN asset swap spread



Global commodity prices (in PLN)

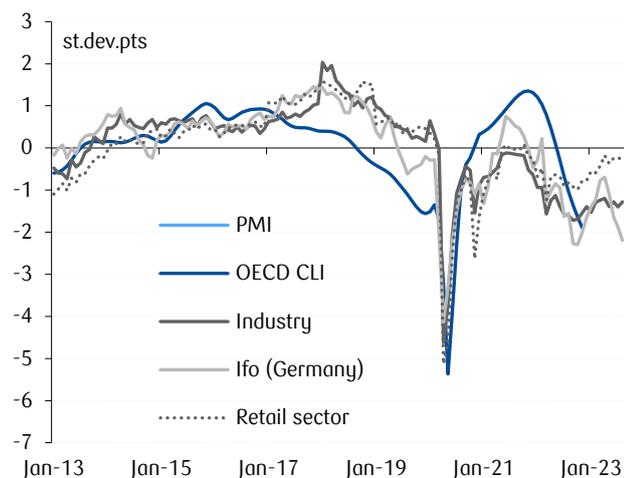


Selected CEE exchange rates against the EUR

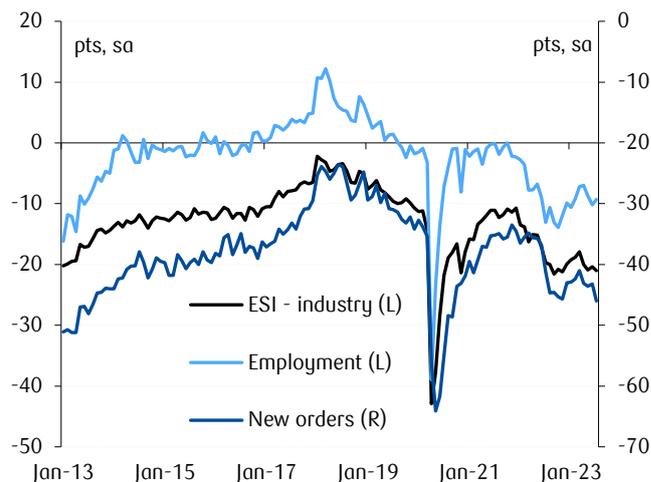


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

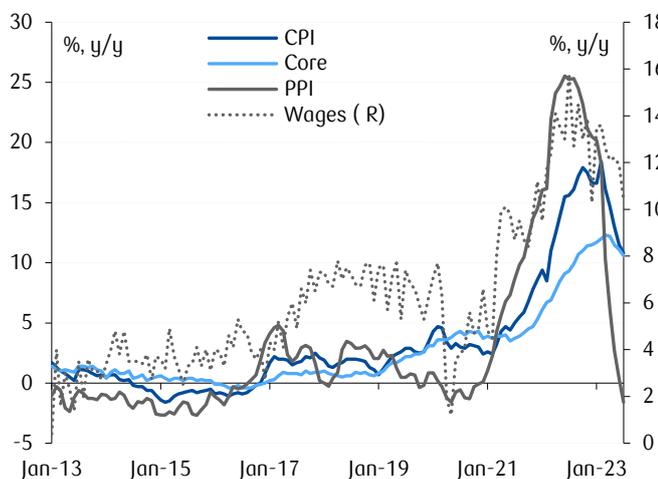
Economic sentiment indicators



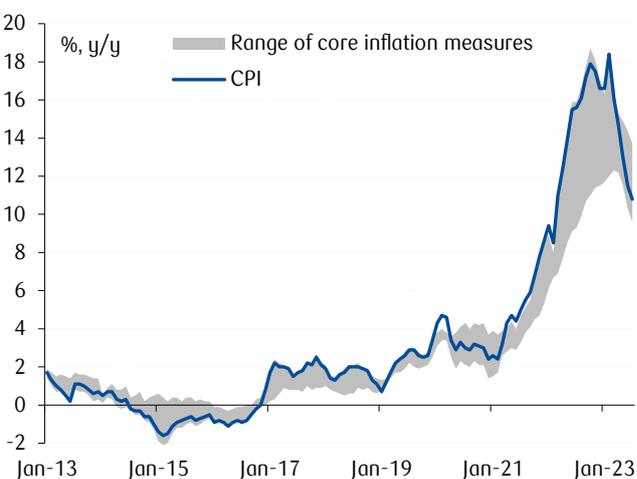
Poland ESI for industry and its components



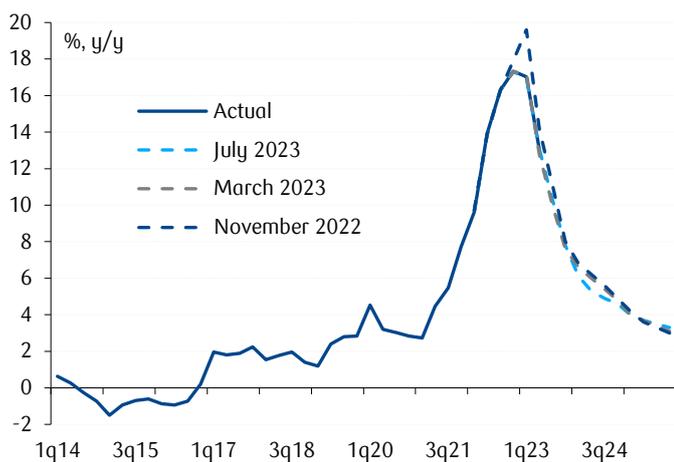
Broad inflation measures



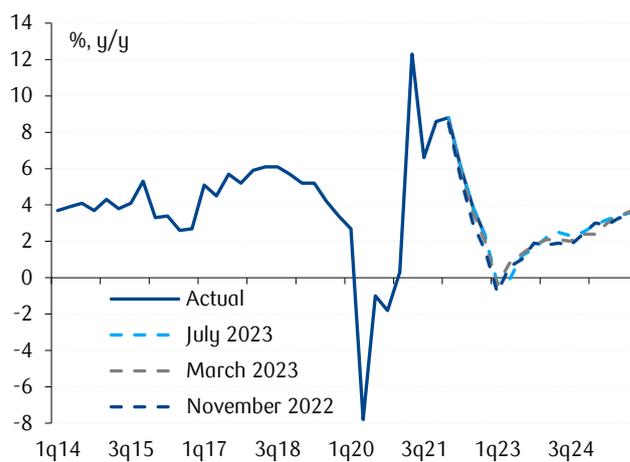
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

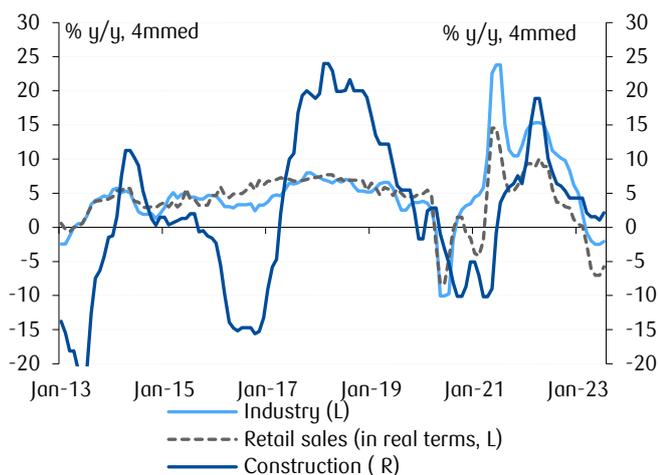


Real GDP growth - NBP projections vs. actual

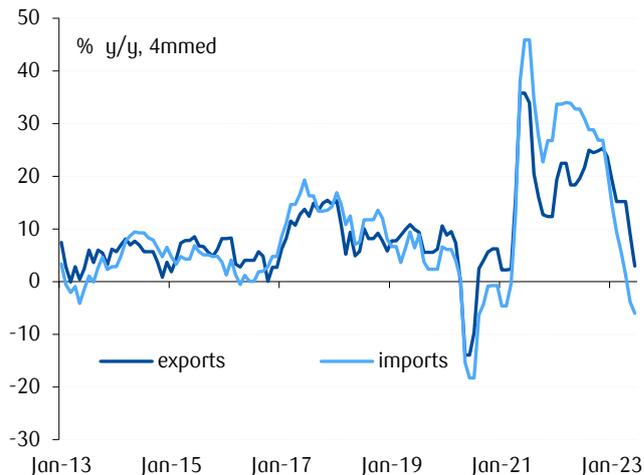


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

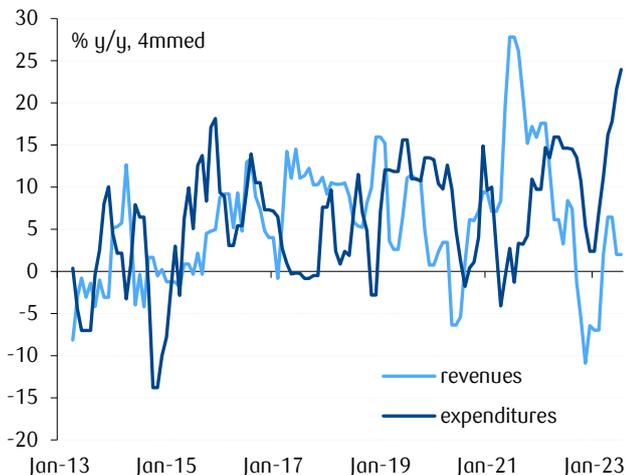
Economic activity indicators



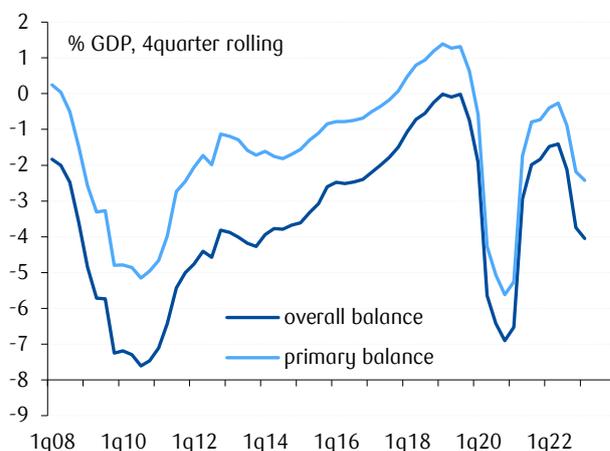
Merchandise trade (in EUR terms)



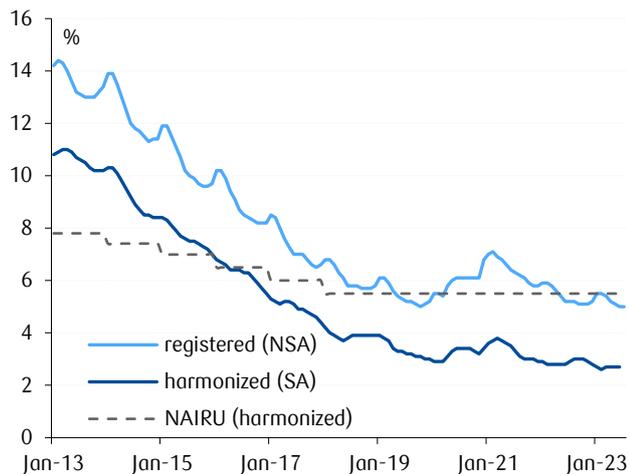
Central government revenues and expenditures*



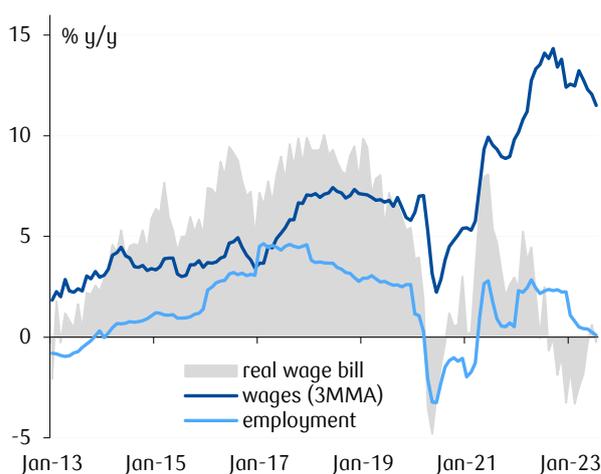
General government balance (ESA2010)



Unemployment rate

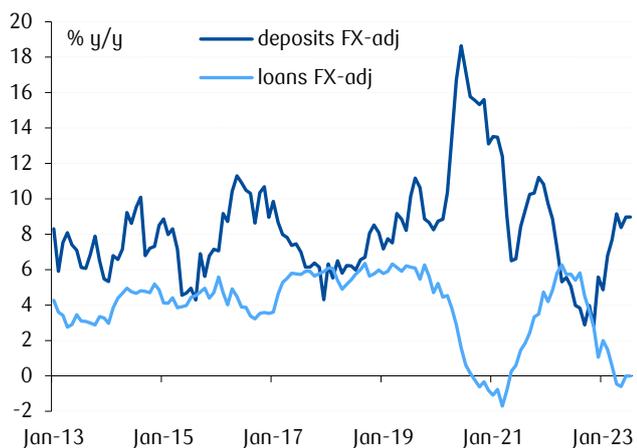


Employment and wages in the enterprise sector

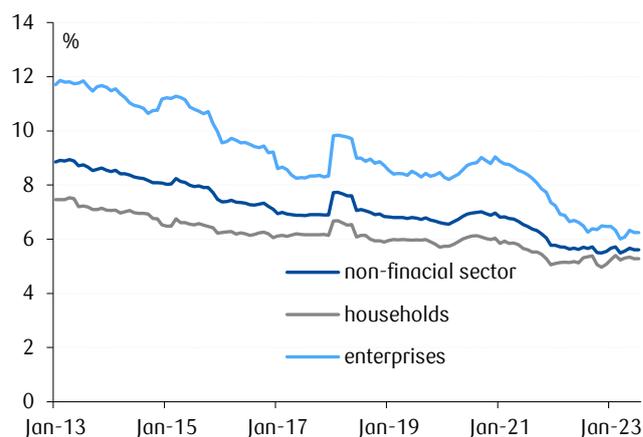


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

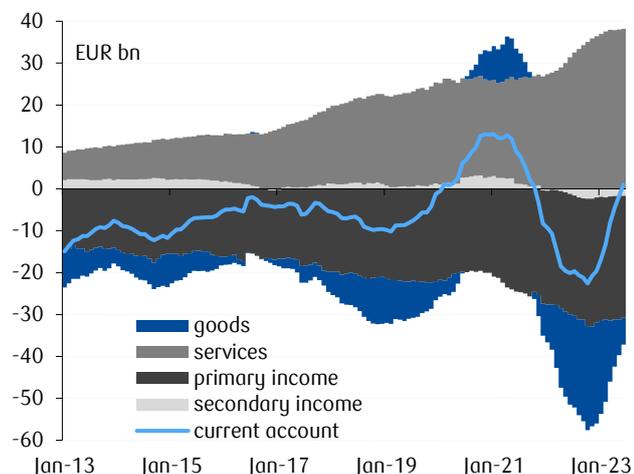
Loans and deposits



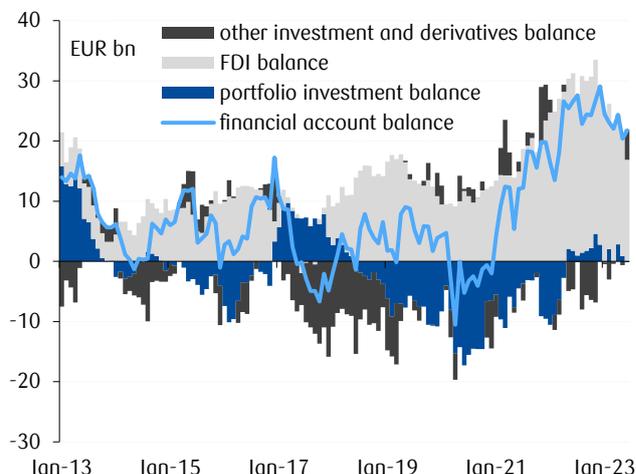
Non-performing loans (NPLs) - by sectors*



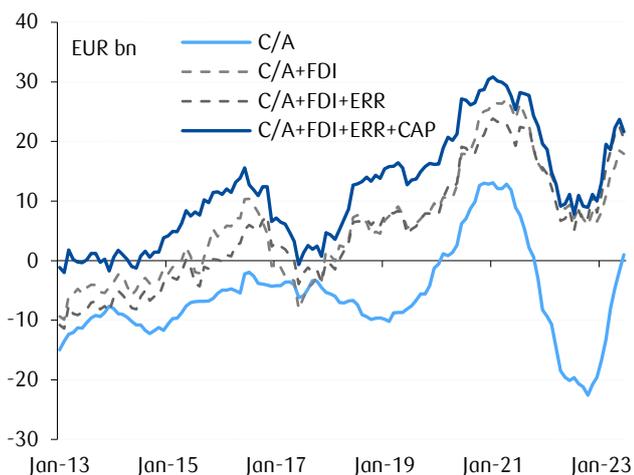
Current account balance



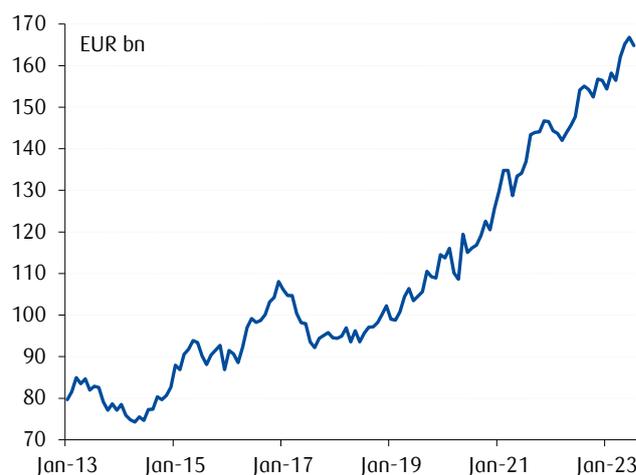
Financial account balance



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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- [Summer sale](#) (August 4, 2023)
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- [Keep calm and don't expect too many cuts](#) (July 14, 2023)
- [The end of the tightening cycle](#) (July 7, 2023)
- [Expected interest rate cuts support the housing market](#) (June 30, 2023)
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- [External position rapidly improving](#) (June 16, 2023)
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- [A surprisingly smooth start into 2023](#) (May 19, 2023)
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- [Fiscal glass: half full or half empty?](#) (Apr 21, 2023)
- [Polish MPC still in a pause mode](#) (Apr 14, 2023)
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- [Inflation peak not as scary as feared](#) (Feb 17 2023)
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