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Economic Comment

Economy slowing, while inflation growing

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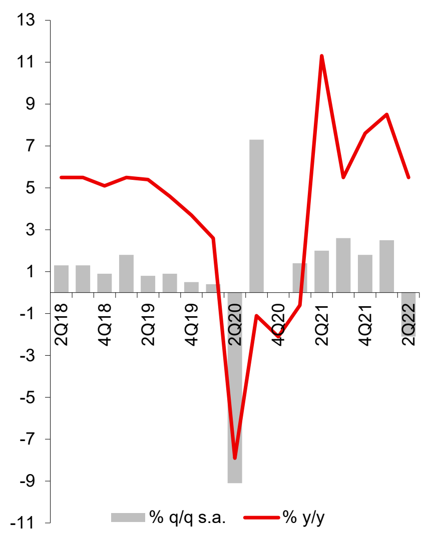
GDP growth in 2Q22 reached 5.5% y/y (revised up from the flash 5.3%), slowing from 8.5% y/y in 1Q. The seasonally adjusted GDP contracted by 2.1% q/q, which is still a very negative print, yet revised a bit higher from the flash -2.3% q/q. The breakdown of growth also looks better than expected, with both consumption and investments performing still quite well. We think that the Polish economy will keep slowing in the coming quarters. Correction in inventories is likely to continue, while a gradual erosion of consumption and investments is also likely due to energy shock, interest rate shock and deteriorating sentiment due to building worries about potential energy shortages. As a result, two remaining quarters of 2022 may see slight contraction of GDP (q/q s.a.), which will bring the annual GDP growth below zero by 4Q22. We still hope that a gradual economic recovery is possible next year, yet the average GDP growth will likely remain below 1%.

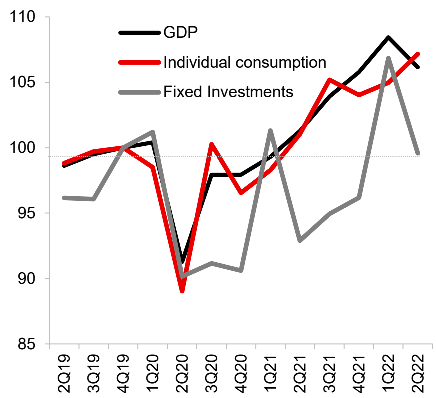
CPI inflation jumped in August to 16.1% y/y, exceeding forecasts and setting new record. It seems that all main categories surprised to the upside, and core inflation rising to 9.9-10.0% y/y (also new record) from 9.5% y/y in July. While we are still expecting CPI to go down in the months to come, the reading shifts the entire path for the upcoming months, with decline below 15% this year now becoming not very likely. Both CPI and GDP data suggest, in our view, that the MPC will hike rates by 25bp in September.

Polish GDP growth



Source: GUS, Santander

Level of GDP and main components, seasonally adjusted



Source: GUS, Santander

GDP growth slowed mainly due to correction in inventories

GDP growth in 2Q22 reached 5.5% y/y (revised up from the flash 5.3%), slowing from 8.5% y/y in 1Q. The seasonally adjusted GDP contracted by 2.1% q/q, which is still a very negative print, yet revised a bit higher from the flash -2.3% q/q.

The breakdown of growth looks a bit better than expected. In particular, the private consumption growth rose 6.4% y/y (vs 6.6% in 1Q) and in seasonally adjusted terms jumped 2.1% q/q (after 0.9% in 1Q). It shows that despite worsening consumer confidence and shrinking purchasing power of labour income, households were expanding their spending in the second quarter, probably at the expense of lower saving rate.

Investments were also pretty robust, accelerating to 7.1% y/y (its highest since 1Q20), confirming positive signals coming from big companies and local governments. Their seasonally adjusted level declined significantly (-6.8% q/q), but we think it could be related to the change in the seasonal pattern since 2020 (it repeats every year since then), which was still not captured by the seasonal adjustment algorithms.

GDP growth and its components (% y/y)

	2020	2021	2Q21	3Q21	4Q21	1Q22	2Q22
GDP	-2.2	5.9	11.3	5.5	7.6	8.5	5.5
Domestic demand	-2.9	7.6	11.8	8.2	10.9	13.2	7.2
Total consumption	-1.0	5.3	10.6	4.2	6.7	5.1	4.9
Private consumption	-3.0	6.1	13.0	4.7	8.0	6.6	6.4
Public consumption	4.9	3.4	4.2	2.8	4.0	0.6	0.8
Gross accumulation	-10.2	17.7	17.2	27.3	24.1	57.3	16.7
Fixed investment	-4.9	3.8	3.0	6.6	5.2	4.3	7.1
Stock building *	-1.1	2.4	2.4	3.3	4.2	7.7	1.9
Net export *	0.6	-1.2	0.4	-2.1	-2.6	-3.6	-1.2

* contribution to GDP growth (percentage points)
Source: GUS, Santander

It seems that the blame for major GDP contraction (s.a.) in 2Q is mainly on inventories, which dragged total gross accumulation -27.7% q/q. Their contribution to y/y GDP growth was still positive (+1.9pp, vs 7.7 in 1Q) but we think it is going to turn negative in the

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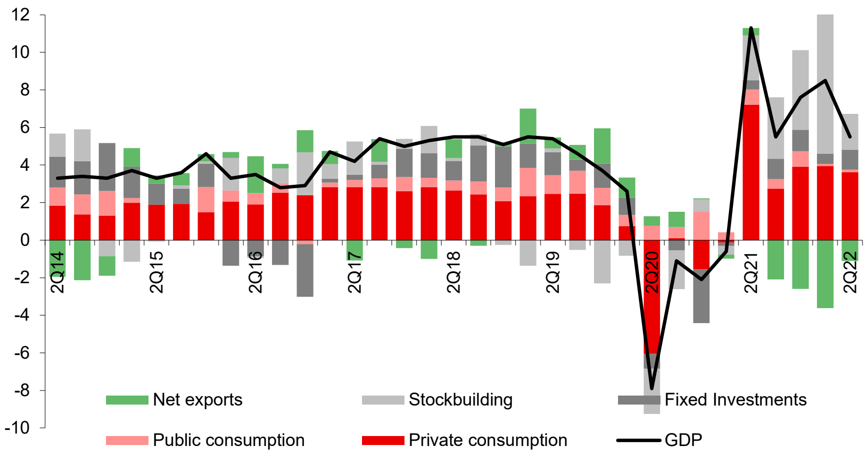
following quarters, as the massive stockbuilding is unlikely to be resumed amid broad-based signals of cooling down demand.

Net exports lowered GDP growth by 1.2pp, after -3.8 in 1Q, amid accelerating exports and slightly slowing imports.

On the supply side almost all main sectors recorded a slowdown in value added growth vs 1Q. The most significant deceleration was recorded by industry (to 8.8% y/y from 15.1% y/y in 1Q) and construction (5.3% y/y from 17.4% y/y), deducting 2.1pp from 1Q annual GDP growth rate. Still, industry managed to post positive q/q growth rates, at 0.6%, while value added in construction declined by 1.3% q/q. We think that these two sectors will witness a further deceleration in the following quarters. Value added in accommodation and catering rose by 3.1% y/y in 2Q22 and its seasonally-adjusted volume still remains way below pre-covid level (at about one third of 2019 average), which we find surprising, given that reported numbers of tourists returned to 2019 levels.

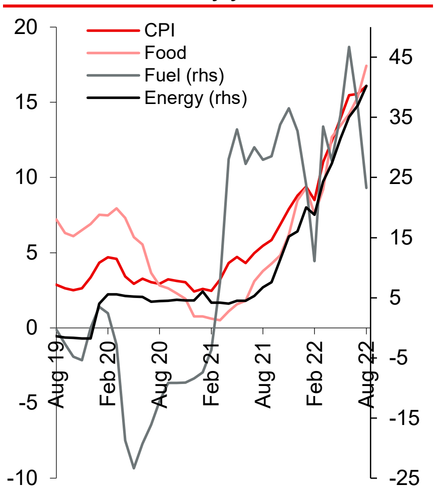
In general, the GDP data – while still not good news – do not look as bad as potentially could be expected after the dramatic flash print. We think that the economy will keep slowing in the coming quarters. Correction in inventories is likely to continue, while a gradual erosion of consumption and investments is also likely due to energy shock, interest rate shock and deteriorating sentiment due to building worries about potential energy shortages.

GDP growth breakdown, demand side (% y/y)



Source: GUS, Santander

Inflation in Poland, % y/y



Source: GUS, Santander

Inflation higher than expected, again

CPI inflation jumped in August to 16.1% y/y from 15.6% y/y in July, while we and the market expected a minor decline to 15.4% y/y. It seems that all main categories surprised to the upside, with food prices advancing by 1.6% m/m (possibly driven by sugar), energy prices by 3.7% m/m (we suspect coal and heat prices) and core inflation rising to 9.9-10.0% y/y from 9.5% y/y in July (new record). While we are still expecting CPI to go down in the months to come, the reading shifts the entire path for the upcoming months, with decline below 15% this year now becoming now very probable. The reading supports our call that the MPC will hike rates by 25bp in September.

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