CEE Economics

Poland

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Economic Comment

No consumption, no investments, inventory buildup

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Polish GDP growth in 3Q was confirmed by the stats office at 2.7% y/y, compared to 3.2% y/y in 2Q. Seasonally adjusted quarter-on-quarter growth was revised to -0.1% from -0.2% shown in the preliminary reading. The growth structure shown by GUS is a big negative surprise. The data showed a drastic slowdown in private consumption to 0.3% y/y from 4.6% y/y in 2Q. The growth rate of investment outlays on fixed assets also practically disappeared in this period: 0.1% y/y vs. 3.2% y/y recorded a quarter earlier. This decline was compensated by an increase in inventories, which in 3Q added 3.2pp to the overall growth.

Detailed data on GDP do not incite much optimism about the domestic economic outlook. We think that reaching an average GDP growth at 3.0% in 2024 may be a challenge, although it is worth remembering that the first monthly data from 4Q24 (industrial production and retail sales) were better than expected, so the last quarter of the year is likely to show some acceleration.

Polish GDP growth in 3Q was confirmed by the stats office at 2.7% y/y, compared to 3.2% y/y in 2Q. Seasonally adjusted quarter-on-quarter growth was revised to -0.1% from -0.2% shown in the preliminary reading. However, this slight upward revision does not mean that in our view the picture of the economy in 3Q looks now more positive. The growth structure shown by GUS is a big negative surprise.

Data for the third quarter on the demand side of GDP creation showed a drastic slowdown in private consumption to 0.3% y/y from 4.6% y/y in 2Q. The growth rate of investment outlays on fixed assets also practically disappeared in this period: 0.1% y/y vs. 3.2% y/y recorded a quarter earlier. As a result, there was a huge decline in the contribution to y/y GDP growth of these two pieces of domestic demand by as much as 2.9 percentage points. This decline led to only a cooling (and not a collapse) of economic growth, because it was compensated by an increase in inventories, which in 3Q added 3.2pp to the overall growth, while in 2Q its contribution was negative, at -0.8pp. Foreign trade had a similar, moderately negative contribution to GDP growth as in the second quarter (-1.5pp vs. -1.3pp previously). Exports decreased by 0.7% y/y after an increase of 2.9% y/y, and imports increased by 1.9% y/y after 5.7% y/y in 2Q.

GDP growth and its components (% y/y)

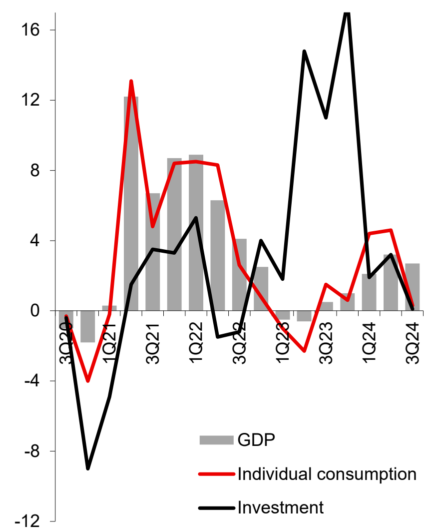
	2022	2023	3Q23	4Q23	1Q24	2Q24	3Q24
GDP	5.3	0.1	0.5	1.0	2.1	3.2	2.7
Domestic demand	4.8	-3.1	-3.8	-1.3	2.3	4.8	4.4
Total consumption	4.0	0.7	1.8	3.1	5.4	6.2	1.3
Private consumption	5.0	-0.3	1.5	0.6	4.4	4.6	0.3
Public consumption	0.6	4.0	2.8	9.8	9.4	11.5	4.5
Gross accumulation	7.7	-16.5	-24.0	-12.1	-15.3	-1.8	20.0
Fixed investment	1.7	12.6	11.0	17.6	1.9	3.2	0.1
Stock building *	1.4	-5.7	-6.9	-7.3	-2.4	-0.8	3.2
Net export *	0.6	3.2	4.3	2.3	0.0	-1.3	-1.5

* contribution to GDP growth (percentage points)

Source: GUS, Santander

We hoped that the growth in private consumption would be higher by about 2pp than the outcome, assuming that its estimates based on the behaviour of retail sales (which only covers the consumption of goods) require a solid upward revision due to the still growing household expenditures on services (this is what the data on the card use by Santander clients have been telling us). We also had doubts about the extent to which we should be guided in assessing the behaviour of the entire private consumption by the very weak and difficult to explain September retail sales result. The rebound in sales in October suggests

GDP and its components, % y/y



Source: GUS, Santander

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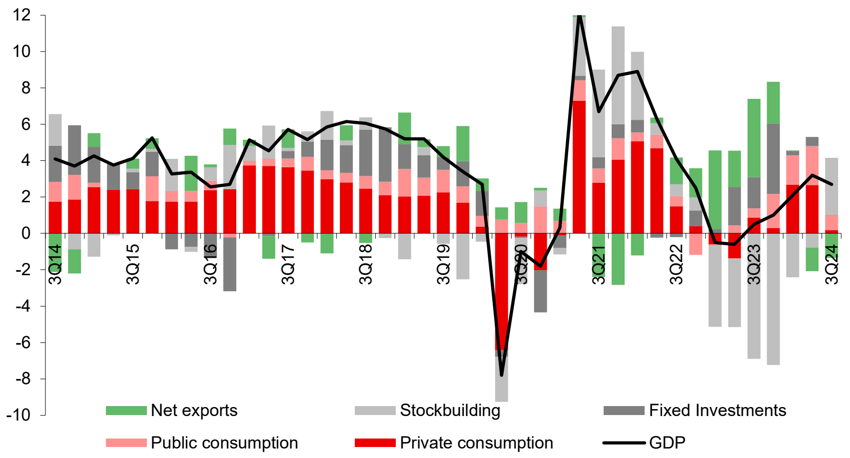
that the September collapse was a one-off, which leaves room for expectations that the third quarter was not reliable in assessing the actual condition of the Polish consumer.

Due to the fact that consumption and investments performed worse than we had expected, we interpret the large increase in inventories as a signal that companies were negatively surprised by demand in 3Q rather than as a sign of expectations and preparations for strong demand in the future.

The data raise question whether the Polish economy will be able to grow at a rate above 3% y/y in 4Q24 and throughout next year. The scale and timing of EU-funded investment projects now appear to be crucial for the economic outlook, as households are already facing a slowdown in their real income growth. The latter issue does not mean that we will not see an increase in private consumption also in the coming quarters – if the cautious attitude of consumers is based on the need to rebuild savings, then naturally over time the emphasis will shift from saving to current consumption, which should therefore be able to grow even amid slowing real incomes.

GDP growth and its components (% y/y)



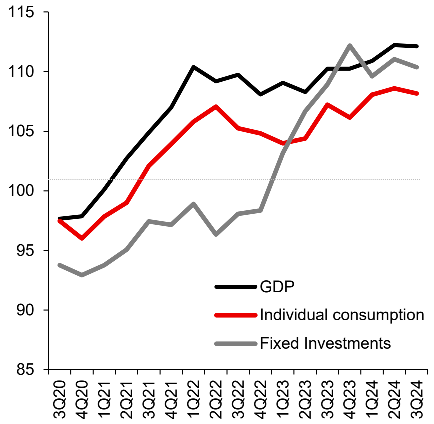
Source: GUS, Santander

The supply side data looks slightly better. Value added increased by 2.3% y/y, i.e. stronger than in 2Q24 (2.2% y/y) and at the fastest pace since 4Q22.

Only trade was significantly weaker than in 2Q24, with value added declining by 1.2% y/y after an upswing by 4.1% y/y in the previous quarter. Most other sectors recorded an improvement, including industry growing by 1.3% y/y vs 0.8% y/y in 2Q24, construction posting -3.0% y/y vs -6.2% y/y, transport 5.8% y/y vs 3.5% y/y and other services 4.5% y/y vs 4.1% y/y. The result of transport is quite surprising in the context of the weak economic situation in Europe and worse results of foreign trade.

In 2Q24 total gross value added contributed 2.0 percentage points to the GDP growth. The remaining 0.7 percentage points were provided by "taxes minus subsidies", compared to its contribution of 1.2 percentage points in 2Q24. As we had expected, the impact of this item will decrease due to the fading effects related to the changes in VAT.

GDP and its components, s.a. 4Q19=100



Source: GUS, Santander

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