Poland: mixed messages from second-quarter GDP data

Poland’s second-quarter GDP was revised up to 5.5% year-on-year, but the details are a mixed bag for the Monetary Policy Council. The consumption boom extended to 2Q22, but the sharp GDP decline in quarter-on-quarter, seasonally-adjusted terms paves the way for a further slowdown

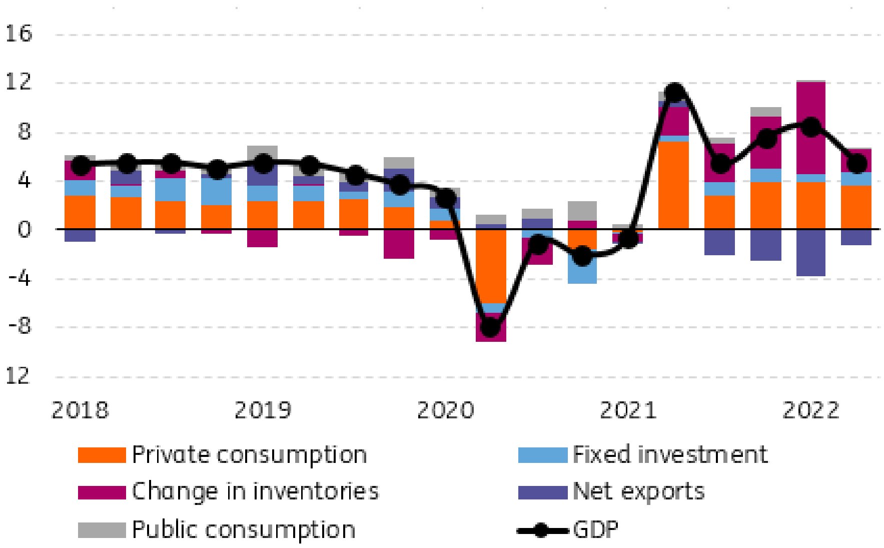
Storm clouds are brewing with Poland's economy set to weaken in 2023

StatOffice revised its 2Q22 GDP estimate to 5.5% YoY, from the previously reported 5.3% YoY. The composition of GDP was also unveiled. It points to strong domestic demand growth (7.2% YoY), with a continuation of the consumption boom (household consumption is up by 6.4% YoY vs. 6.6% YoY growth in 1Q22) and the continued expansion in fixed investment (a solid 7.1% YoY).

The main reason behind the GDP slowdown is inventories – their contribution dropped markedly from a very high 7.7pp to 1.9pp only. This was partially offset by less negative foreign trade, which knocked off 1.2 percentage points from the annual GDP growth, less negative than in the first quarter.

GDP growth (YoY) and its contributions

Data point to sharp decline in activity in QoQ SA terms that paves the way for a further slowdown.



Source: GUS

Regarding the value-added, significantly lower growth than in 1Q22 was recorded for the industrial sector (8.8% YoY vs. 15.1% YoY) and construction (5.3% YoY vs. 17.4% YoY). Trade and repair activity continued to grow strongly (5.8% YoY).

Seasonally-adjusted data show a sharp downturn in economic activity. The 2.1% QoQ drop in GDP is one of the worst performances on record, however, we should bear in mind that it followed very strong growth in previous quarters. Also, we think, the sharp sequential slide was caused by the statistical effects of deflators revision.

The second half of 2022 should bring economic slowdown

The data on economic activity in 2Q22 confirm that the Polish economy has entered a phase of slowdown and that the second half of the year will clearly be worse than the beginning of the year. A positive surprise is the persistence of relatively high investment activity, although it is difficult to believe that positive trends in this aspect will be maintained in the upcoming quarters. At the same time, in 2H22 consumption will slow due to shrinking savings, while high inflation should also undermine households' purchasing power, especially in the context of high uncertainty about winter heating bills and electricity costs in 2023.

Full-year growth in 2022 still strong but the outlook for 2023 is worse

Despite weaker-than-expected GDP growth in 2Q22 (we had hoped for as much as 6.5% YoY) and a marked deterioration in the outlook for 2H22, full-year growth will still be high due to strong activity at the start of the year. We still expect GDP growth of more than 4% in 2022, while clouds are mounting over 2023 when economic growth is likely to be close to 1.5%. The deepening energy crisis is a major challenge for the European and Polish industries. In the event of significant gas shortages, restrictions on gas supply to companies are to be expected. In addition, high energy prices are undermining the profitability of production in some industries, as exemplified by the recent decisions to suspend production by some domestic fertiliser manufacturers. High inflation will also persist into 2023, undermining household purchasing power.

Interest rates outlook and MPC reaction

The further rise in inflation in August and the persistent inflationary risks mean that the MPC will not choose to announce the end of the interest rate hike cycle any time soon. We expect the Council to raise the benchmark rate by 25bp to 6.75% next week.

On the other hand, the space for further tightening is also limited. We have downgraded our terminal rate forecast from 8.5% to 7-7.5%, but we don't see space for cuts in 2023 either. Today's data support our view. The market is pricing a terminal rate at 7.5% which should remain this way given the high sensitivity of the MPC to an economic slowdown.

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