

Consumption drives Polish recovery; investment declines

The StatOffice revised its 1Q24 GDP estimate to 2.0% year-on-year from 1.9% earlier. The economic rebound is led by private and public consumption (up by 4.6% YoY and 10.9% YoY, respectively). Fixed investment shrank by 1.8% YoY following buoyant growth on the back of public investment in 2023. The drag from inventory adjustment eased a bit



Warsaw's market square

The Polish statistical office revised its preliminary estimate of 1Q24 GDP growth to 2.0% YoY from 1.9% YoY reported initially (1.0% YoY in 4Q23). The seasonally-adjusted data points to 0.5% quarter-on-quarter growth, after 0.0% QoQ a quarter earlier.

The composition of GDP growth was also unveiled.

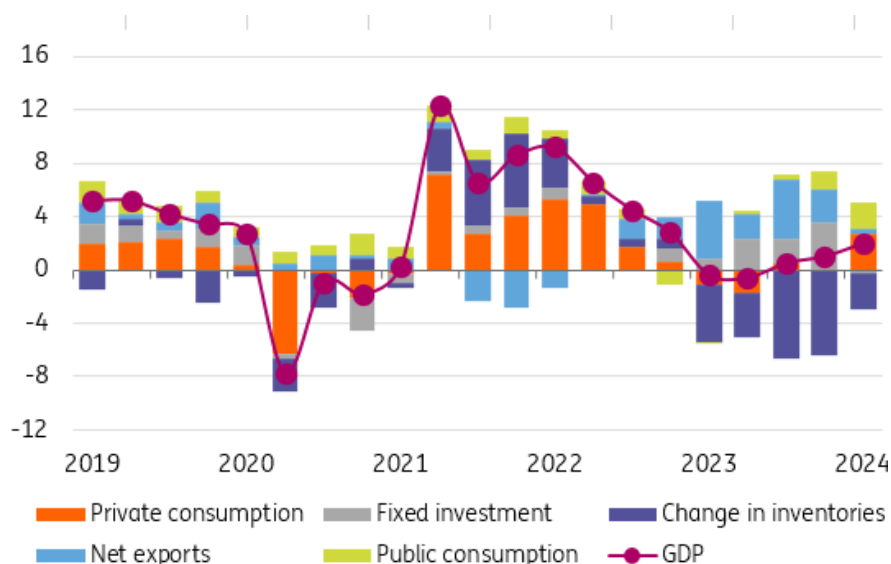
- On the expenditure side, household consumption jumped by 4.6% YoY (0.0% YoY in 4Q23), public consumption increased by 10.9% YoY (7.5% YoY in 4Q23) and fixed investment declined by 1.8% YoY (vs +15.8% YoY in 4Q23).
- The change in inventories subtracted 2.8 percentage points from the 1Q24 annual GDP

growth rate.

- Foreign trade added 0.4 percentage points.
- On the supply side, value added in manufacturing increased by 0.2% YoY (2.1% YoY in 4Q23), construction fell by 8.9% YoY (+5.7% YoY in 4Q23) and trade and repair rose by 4.4% YoY (0.2% YoY).

Poland's GDP composition

%YoY; percentage points



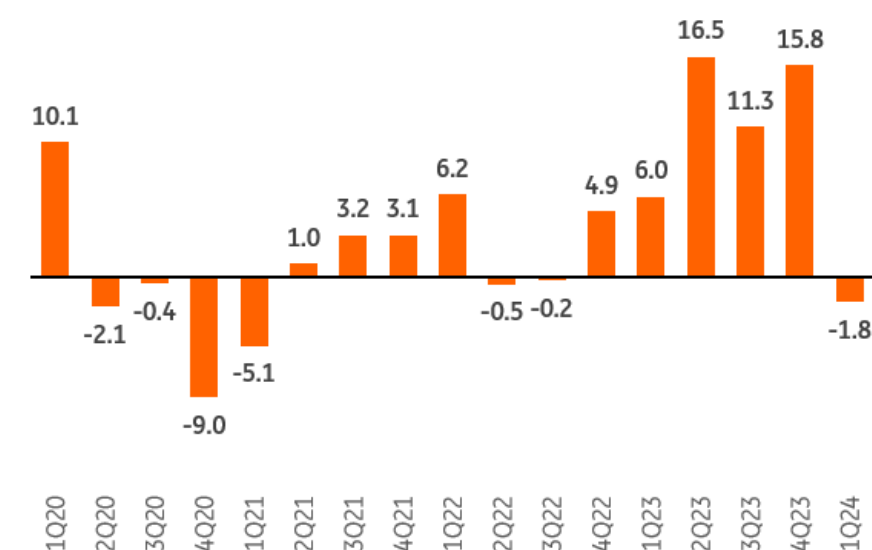
Source: GUS, ING.

The sources of GDP growth in 1Q24 did not surprise us, nor did they present a very optimistic picture of the economy. As expected, the recovery is primarily driven by a gradual rebound in consumption. Despite the higher propensity of households to save, the buoyant growth in real disposable income is translating into an increase in purchasing activity. Robust growth of labour income (double-digit growth in nominal wages and salaries) and proceeds from social benefits (high indexation of pensions and child benefits, among others) are supporting consumers. This is accompanied by a marked fall in inflation from very high levels last year. There was an impressive increase in public consumption (10.9% YoY) boosted, among other things, by an increase in public sector wages.

We note without satisfaction that our forecast of a decline in fixed investment in 1Q24 has indeed materialised. Investment developments were closely linked to the completion of projects financed by the 2014-20 EU financial perspective and the slow start of projects from the 2021-27 perspective. This factor strongly boosted public investment in 2023. Last year, public investment was as high as 5.0% of GDP (the highest since 2011), which is unlikely to happen again in 2024, especially given the delay of Poland's Recovery and Resilience Plan (RRF). Last year's investment boom (up by 13.1% in 2023 overall and 15.8% YoY in 4Q23) was about two-thirds driven by public investment. However, business investment (apart from a few large investments including state-owned) was weak, especially in the small and medium-sized business sectors. The 1Q24 data exposed this low business investment. We expect investment activity to improve in 2H24 and accelerate markedly in 2025.

Public sector led investment boom came to an end

Fixed investment, %YoY



Source: GUS.

Today's data indicates that the Polish economy should achieve economic growth of around 3% this year, with growth mainly based on one engine: consumption. In the context of the outlook for monetary policy, this is not an optimal growth structure, as it may translate into renewed inflationary pressure (easier acceptance of price increases by consumers). Low business investment, despite very high wage growth, means that companies have taken little action to compensate for rising labour costs or the falling availability of workers. In such conditions, the propensity to pass on labour costs to prices will be high. The Polish economy is in desperate need of business investment. We expect interest rates to remain unchanged until the end of 2024, and the cycle of rate cuts will not start until 2025 when we think it will be limited in scale.

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