

## Sharp slowdown in Poland's third-quarter consumption

The September flood in southern Poland probably impacted the third-quarter GDP composition as household consumption slowed sharply, while a change in inventories became the main source of growth. The scale of the rebound in retail sales is insufficient to give confidence in consumption. We see slower consumption growth in 2H24 as Poles remain frugal



The September flood in southern Poland probably impacted the third-quarter GDP composition

### Consumption growth slowed to a crawl

The flash estimate of Poland's GDP growth of 2.7% year-on-year in the third quarter has been confirmed. Seasonally adjusted data indicate that recovery halted between July and September (-0.1% quarter-on-quarter).

The composition of GDP growth has also been published. The biggest negative surprise is the scale of the slowdown in private consumption. Household spending increased by just 0.3% YoY, compared to a 4.6% YoY increase in the second quarter. Retail sales data shows a drop in demand for goods, while overall consumption also suggests a decline in service purchases.

According to a recent survey by the National Bank of Poland (NBP), consumers have increased savings as they prepare for a higher cost of living in the future and slower income growth, and remain concerned about the developments in the Russia-Ukraine conflict. These factors are

particularly important for lower-income households. Slower consumption growth is also to some extent linked to higher inflation as energy prices have jumped. Along with somewhat slower growth of nominal wages, it reduced real disposable income growth. Higher energy bills have limited the funds available for other spending.

The pace of public consumption also slowed – to 4.5% YoY from 11.5% YoY in the second quarter, despite high wage increases in the public sector (teachers, civil servants).

## **Economic growth is being driven by a change in inventories**

Domestic demand increased by 4.4% YoY in the third quarter after 4.8% YoY growth in the second quarter of 2024, but this time mainly due to changes in inventories, which added 3.2 percentage points to annual GDP growth, becoming the main driver of economic growth.

In the previous six quarters, this category had a negative contribution to GDP so the turnaround was expected, but the scale was a big surprise. The sharp slowdown in consumption growth and the jump in inventories in 3Q24 indicate a significant impact of the floods, but this does not explain all shifts in the GDP growth composition.

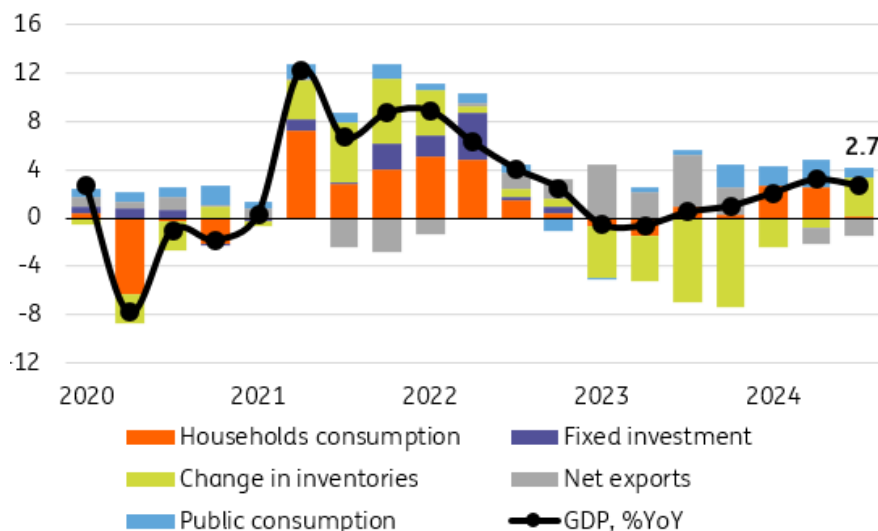
## **Investment and exports remain weak**

Investment activity remains subdued. Fixed investments were stagnant in 3Q24 (+0.1% YoY) after an increase of 3.2% YoY in the previous quarter. Data from enterprises suggest deepening declines in private investment and positive annual figures this year are mainly thanks to public investment, including military equipment purchases. In the third quarter, the latter was probably lower than in the second quarter.

Foreign trade knocked off 1.5 percentage points from 3Q24 GDP annual growth. Exports fell by 0.7% YoY, while imports increased by 1.9% YoY. This reflects the fact that domestic demand is growing faster than foreign demand, driving imports and weighing on exports. Weak economic conditions in major export markets (mainly Germany and the eurozone) curb economic activity in Poland.

## Change in inventories was the main driver of economic growth in 3Q24

%YoY, perc. points



## Weak industry and declines in construction and trade

Gross value added increased by 2.3% YoY in 3Q24 versus 2.2% YoY in 2Q24. Slow growth in industry (1.3% YoY) was accompanied by continued declines in construction (-3.0% YoY) and deterioration in trade and repairs (-1.2% YoY), suggesting a negative impact of the floods. Improvement in transport and warehousing (+5.8% YoY) is consistent with data on changes in inventories, but may also reflect a relatively good economic situation outside the flood-affected areas.

### Summary

After a better-than-expected second quarter, the third quarter saw a halt in the pace of economic recovery with a surprisingly strong slowdown in consumption growth.

In our view, this was temporary, and the final quarter of the year should bring further expansion of the Polish economy, but the weakness of consumption in the second half of 2024 is greater than we expected.

The flood most likely had an important impact on the economy, but there were also other factors curbing consumer spending, including concerns about the future cost of living and the war in Ukraine, as well as high levels of prices. In the coming quarters, consumption is expected to improve, but unlikely to grow at the pace seen in the first half of the year.

We forecast fourth-quarter growth of around 3%YoY and 2024 economic growth at 2.7%. In 2025 we expect growth to accelerate to about 3.5% due to, among other things, stronger fixed investment thanks to projects financed from EU structural funds and the Recovery and Resilience Fund. Still, there is a lot of uncertainty surrounding the scale of the rebound in fixed investment and household consumption next year.

## Authors

### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

### Adam Antoniak

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.