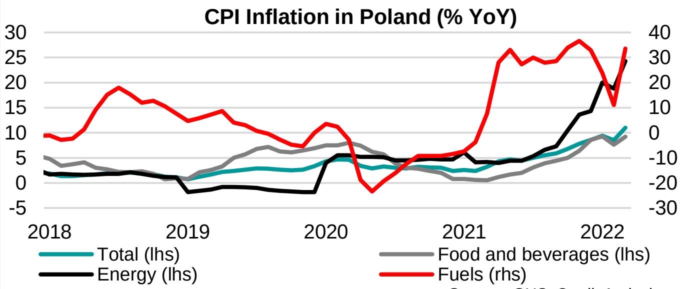
EU funds to spur activity in construction sector

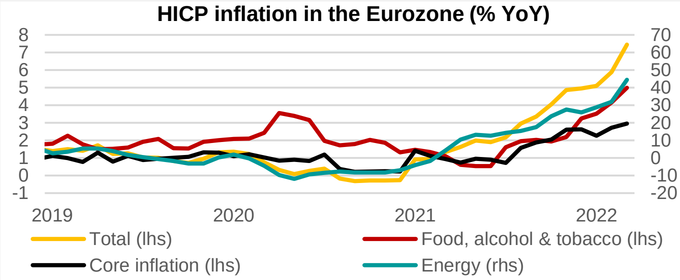
This week

- **Friday will see the release of Poland's flash inflation figures; our estimate is that inflation rose to 11.6% YoY in April from 11.0% in March.** We believe that the rise in inflation in April has been driven primarily by a surge in food prices and by a rise in core inflation. Our forecast is above market consensus (11.3%), and thus its materialization would be slightly positive for the PLN and yields on Polish bonds.



Source: GUS, Credit Agricole

- **Some important data from the US will be released this week.** The first GDP estimate for Q1 is planned to by published on Thursday. We expect annualized GDP growth to have slowed markedly, to 0.9% from 6.9% in Q4, primarily as a result of a drop in the inventories contribution (following a sharp rise in Q4) and a decline in net exports. We believe that PCE inflation has risen to 6.8% YoY in April from 6.4% in March, while core inflation has dropped to 5.3% from 5.4% in March. We forecast that preliminary durable goods orders have risen by 0.5% MoM in April versus a drop of 2.1% in March, which has been driven by higher orders in the transport industry. We expect that the Conference Board index (109.0 pts in April vs. 107.2 pts in March), as well as the final Michigan index (65.7 pts vs. 59.4 pts in March) will show a further improvement in household sentiment in April due to lower prices of fuels in the US. We believe that the release of US data should not have a significant impact on financial markets.
- **Significant data from the Eurozone will be published this week.** We expect quarterly GDP growth to have slowed to 0.2% in Q1 from 0.3% in Q4 due to a deterioration in the pandemic situation. On Friday, the release of a flash estimate of Germany's GDP growth will provide more data on economic growth in the Eurozone. We expect GDP to have picked up to 0.0% QoQ in Q1 from -0.3% in Q4. We also forecast a slight drop in HICP inflation the Eurozone, to 7.3% YoY in April from 7.4% in March, driven by slower rises in energy prices. We believe that the release of the data will be conducive to a slight appreciation of the PLN and a drop in yields on Polish bonds.



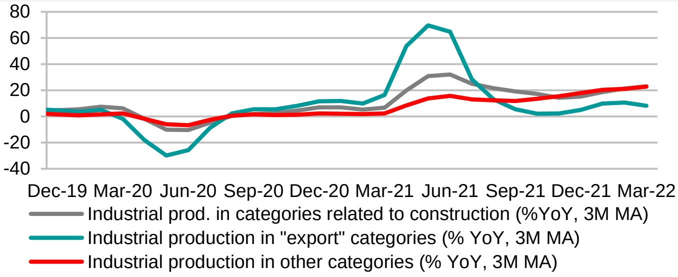
Source: Datastream, Credit Agricole

- **Today, the Ifo index will be released, reflecting the sentiment of German businesses in the manufacturing, construction, trade, and services sectors.** According to consensus, the index has fallen to 89.1 pts in April from 90.8 pts in March. The drop in the index will be in line with an economic downturn in Germany signalled by PMI figures last week (see below). We believe that the release of the Ifo index will be neutral for financial markets.
- **The publication of an update of Poland's long-term debt rating by Moody's is scheduled for Friday.** Following its previous rating review (autumn 2021), Moody's did not revise Poland's long-term debt rating, thus keeping it at 'A2' with a stable outlook. However, in April 2021, the agency noted that the then-current rating was based on several factors: resilience of the Polish economy and a relatively small GDP drop during the pandemic, a good condition of public finances, and challenges in the context of the institutional framework, including in particular unfavourable changes in the Polish judicial system. At that time, the agency noted that any further significant deterioration in the rule of law situation, which would negatively affect the business climate and result in a deterioration in relations with the EU, would also be a factor

adversely affecting Poland's credit rating. We expect Moody's to keep Poland's rating and its outlook unchanged, however, we expect Moody's press release to include comments pointing out the ongoing dispute between Poland and the EU. The decision of the agency will be announced after the European markets close, thus we cannot expect any reaction of the foreign exchange market and the debt market before next week.

Last week

- **Industrial production in Poland grew by 17.3% YoY in March vs. 17.6% growth in February.** Seasonally adjusted industrial production grew by 2.1% MoM in March, indicating a continuation of rapid growth in industrial activity despite the ongoing war in Ukraine**.** In March, there was a significant slowdown recorded in production in categories where sales are predominantly export-oriented. This is primarily the effect of a heavy drop in production in the "motor vehicles, trailers and semitrailers" category associated with a two-week long break at Volkswagen's plant caused by a shortage of components (see MACROpulse of 21/04/2022). In March, we also observed a stabilisation of the production growth rate in construction-related industries and acceleration in other industry categories. Construction and assembly production increased by 21.0% YoY in March, compared to 20.9% in February. Seasonally adjusted construction and assembly production increased by 5.1% MoM in March. Consequently, output in March was again above the level recorded in February 2020 (by 3.3%), a month in which the pandemic had no significant impact on construction activity. Data on construction production in March confirms that the decrease in employment in the construction industry, which has been reported in the media, as a result of an outflow of workers from Ukraine, has not yet contributed to a significant reduction in construction activity. The stabilisation of annual construction and assembly production dynamics in March was driven by a significant increase in the category of "civil engineering works", a decline in the category of "specialised construction works," and a strong increase in the category of "construction of buildings" (see MACROpulse of 22/04/2022). We expect the upturn in construction activity in the coming months to be limited by increasing supply constraints (shortage of skilled workers and strong increases in the prices of construction materials) and demand constraints (reduced availability of housing loans and falling cash demand for housing related to the uncertainty accompanying the war in Ukraine). The industrial production as well as construction and assembly production data poses a significant upside risk to our forecast that Poland's GDP will grow by 6.1% YoY in Q1, compared to 7.6% in Q4.

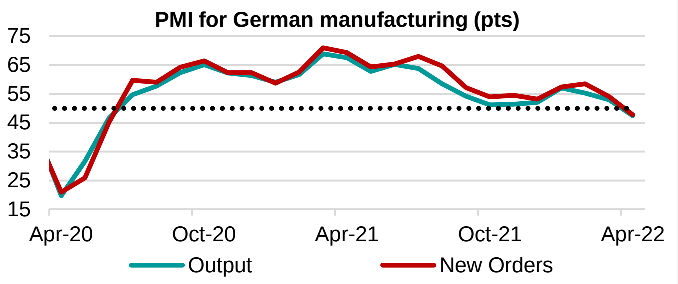


Source: GUS, Credit Agricole

- **Nominal wage growth in Poland's corporate sector rose to 12.4% YoY in March, up from 11.7% in February, and was at its highest level since April 2008.** According to the GUS announcement, the increase in wages in March was caused by the payment of discretionary bonuses, jubilee, Christmas and quarterly bonuses, annual awards, salary increases, including those related to the mobility package, as well as settlements of overtime work and payments of retirement severance pay. For the second month in a row, "wage increases" are explicitly mentioned in the GUS release as a reason for wage growth, which confirms that an important factor influencing the acceleration of wage growth in the corporate sector is the growing wage pressure. Employment dynamics in the corporate sector increased to 2.4% YoY in March from 2.2% in February, in line with the consensus and above our forecast (2.1%). Employment increased by 10.0k MoM. Hence, the data reflects to a limited extent the decline in employment reported in the media and expected by us due to the return of Ukrainians previously working in Poland to their homeland (see MACROpulse of 21/04/2022). A combination of acceleration in employment and deceleration in real wage growth in the corporate sector resulted in a decline of the real growth rate of the corporate sector wage fund (a product of employment and average price-adjusted salary) to 3.8% YoY vs. 5.2% in February. The average dynamics of real wage fund increased to 3.8% YoY in Q1, compared to 2.5% in Q4 last year. Given the March data on wage dynamics in the corporate sector and strong wage pressure, we have raised our forecast for wage growth across the economy in 2022 (to 9.7% YoY) and in 2023 (to 9.5%).

- **Poland's nominal retail sales dynamics accelerated to 22.0% YoY in March from 16.5% in February.** Retail sales in constant prices increased by 9.6% YoY in March, compared to a 8.1% rise in February. Seasonally adjusted retail sales in constant prices increased by 1.4% MoM in March, once again reaching their historically highest level. The main factor contributing to the acceleration of retail sales growth in March was the influx of refugees from Ukraine to Poland, providing sustained support to retail turnover. This factor more than offset the negative impact of the rising inflation (see MACROpulse of 22/04/2022). We expect that due to the increasing returns of refugees to Ukraine and a decline in demand for goods purchased on a one-off basis (clothing, footwear, furniture, consumer electronics, household appliances), as well as a further increase in inflation expected by us, retail sales growth will clearly slow down in April.

- **According to preliminary data, the composite PMI (for manufacturing and services) in the Eurozone rose to 55.8 pts in April from 54.9 pts in March, above market expectations (54.0 pts).** The increase in the composite PMI was due to an increase in the component for business activity in services, while the component for output in manufacturing declined. The strong increase in activity in services was due to a noticeable improvement in the epidemic situation in Europe. In geographical terms, the composite PMI fell in Germany, while France and the other surveyed countries experienced an increase. The above-mentioned discrepancies in economic activity between individual Eurozone countries (a downturn in Germany and an upturn in France) was also confirmed by the composite index for expected production in 12 months. From the perspective of Polish exports, what is particularly important are trends in Germany, where PMI for manufacturing fell in April to 54.1 pts from 56.9 pts in March. The index's decline resulted from lower contributions from 3 out of its 5 components (output, new orders and delivery times), while the opposite was true for higher contributions from the components for stocks and employment. In the structure of the German data, the most noteworthy is the reduction of the components for output and new orders below the 50 pts threshold separating growth from decline in activity for the first time since June 2020. According to the release, this was due to strong disruptions in supply chains related to the war in Ukraine and administrative restrictions in China introduced in response to the deterioration of the epidemic situation in that country. At the same time, the index for expected production in German manufacturing for 12 months fell to its lowest level since May 2020. Thus, the surveyed companies fear that the war in Ukraine will have a lasting negative impact on their business. On the one hand, the results of business surveys in German manufacturing signal a deterioration of the outlook for Polish exports. On the other hand, Polish exports in the coming months will be supported by taking over trade flows from Russia, Belarus and Ukraine (see MACROmap of 11/04/2022). As a consequence, we are upholding our scenario that Polish exports will slow down to 7.0% YoY in Q2 from 8.1% in Q1.

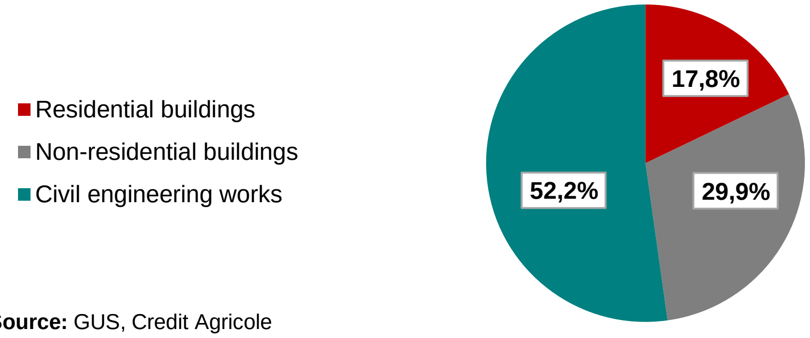


Source: Markit, Credit Agricole

- **Last week, important data regarding the US real estate market was published.** Data on building permits (1,873k in March vs. 1,865k in February), housing starts (1,793k vs. 1,788k) and existing home sales (8.77m vs. 8.93m) attesting to continued high activity on the US real estate market. We expect the Fed to hike interest rates by 50bp in May. We believe that in June, the Fed will make another 25bp move with a monetary tightening slowdown expected afterwards as inflationary pressure wanes (we anticipate one interest rate hike in Q3 and one in Q4 – see MACROmap of 04/04/2022).

EU funds to spur activity in construction sector

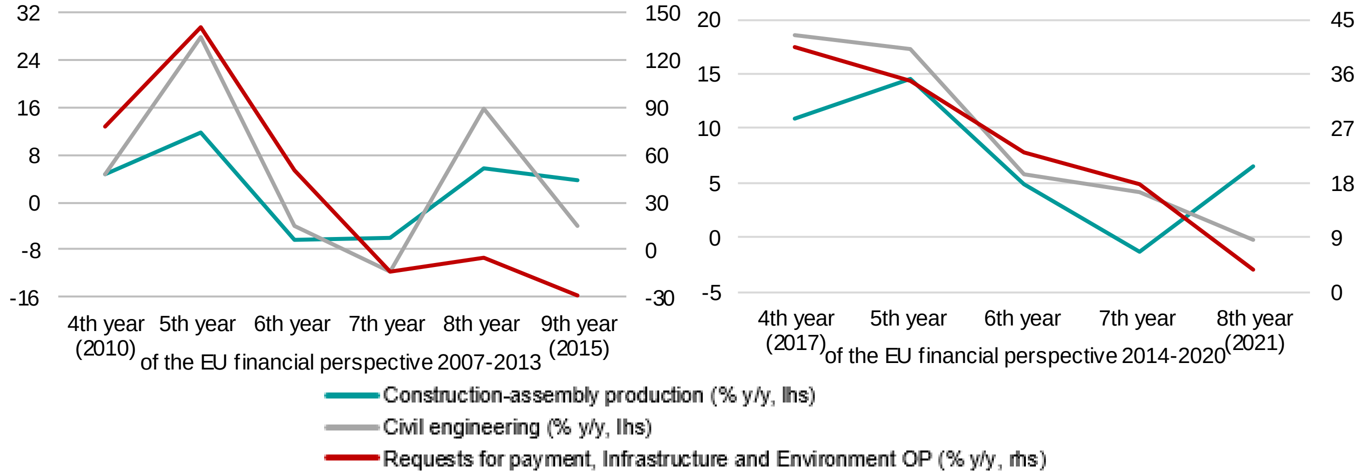
Construction-assembly production breakdown (2021)



Source: GUS, Credit Agricole

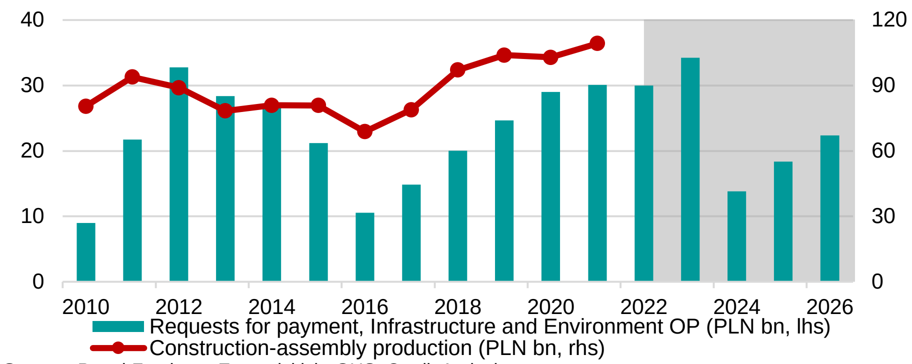
Accounting for over half of construction-assembly production (see graph), activity in the "civil engineering" category is pivotal to the mid-term prospects of the construction sector. Below, we analyse the prospects in this construction segment through the lens of the expected use of EU funds over the coming years.

One of the main determinants of construction-assembly production growth, particularly in the civil engineering segment, is the absorption rate of EU funds. This is because these funds are a major source off infrastructure investment financing. Out of all operational programmes, funds allocated to construction projects predominantly originate from the Infrastructure and Environment Operational Programme. During the previous EU financial perspective (2007-2013), in 2010-2015 the growth rate of payment applications under this operational programme exhibited a strong correlation with the growth rate of construction-assembly production (49%) and production in the civil engineering segment (67%). A similar situation exists in the current financial perspective (2014-2020). In 2017-2021, the correlations mentioned above amounted to 60.4% and 96.7%, respectively.



Source: Portal Funduszy Europejskich, GUS, Credit Agricole

It can be noted that the use profile of EU funds (growth rate of submitted payment applications) under the Infrastructure and Environment Operational Programme was similar in the case of both EU budgets. EU funds had the highest stimulating effect on construction-assembly production in the fourth-fifth year of the perspective. Due to the preparations for EURO 2012, the use profile of funds from the 2007-2013 perspective was steeper (significantly higher growth rate in the fourth-fifth year of the perspective, a YoY decline in the seven-eight year) than in the current 2014-2020 perspective.



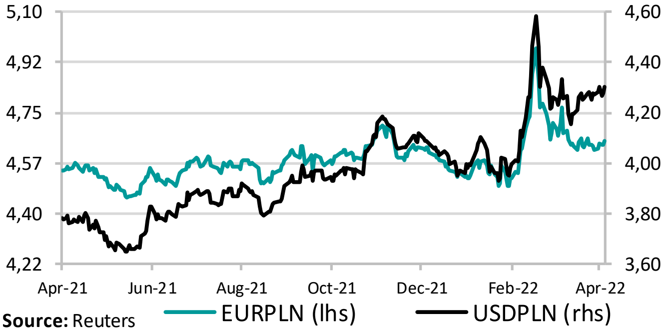
Source: Portal Funduszy Europejskich, GUS, Credit Agricole

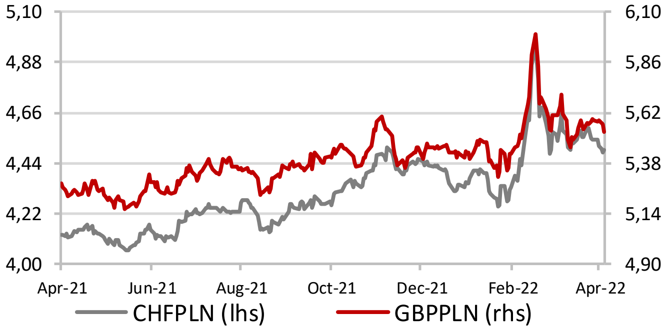
We estimated the expected use of EU funds in the coming years based on the experience related to the absorption of funds under both financial perspectives. We only analysed the use of funds under the European Funds for Infrastructure, Climate, Environment Operational Programme (continuation of the Infrastructure and Environment Operational Programmes from the previous perspectives), i.e. only a part of the entire EU budget as this programme is of crucial importance for the construction industry. At the same time, we did not consider funds under the National Recovery Plan (NRP), which is a separate source of financing relative to the seven-year EU perspective. We believe that the absorption of funds under the European Funds for Infrastructure, Climate and Environment Operational Programme during the implementation of the 2021-2027 financial perspective will follow a similar pattern as in the 2014-2020 perspective. It is worth noting that 2016 saw a dip in the absorption of EU funds, which contributed to a marked decline in construction-assembly production (see chart). Funding under the 2007-2013 perspective was available up until and including 2015, while the implementation of projects under the 2014-2020 perspective was still very limited in 2016. We believe that we will be seeing a similar situation (a significant reduction in the absorption of EU funds and a strong slowdown in construction and assembly production) in 2024. The possibility of settling funds under the current perspective will end in 2023, and the absorption of funds under the 2021-2027 perspective will still be limited.

We believe, however, that the absorption of EU funds will boost the growth rate of construction-assembly production in 2023. That year will see an overlap of fund streams from two EU perspectives (2014-2020 and 2021-2027). This supports our forecast assuming an expansion of gross fixed capital formation to 7.0% YoY in 2023 and of GDP growth to 4.3% YoY. The launch of the National Recovery Plan will pose a significant risk to the activity profile in construction, investments and GDP growth presented above. It is difficult to accurately predict the time profile of spending those funds under the NRP that will be mainly allocated to construction projects. In our opinion, the launch of the NRP will contribute to even higher stimulation of construction-assembly production in 2023 and will limit its decline outlined above in 2024.

Inflation data for Poland and the Eurozone may strengthen the PLN

FX rates





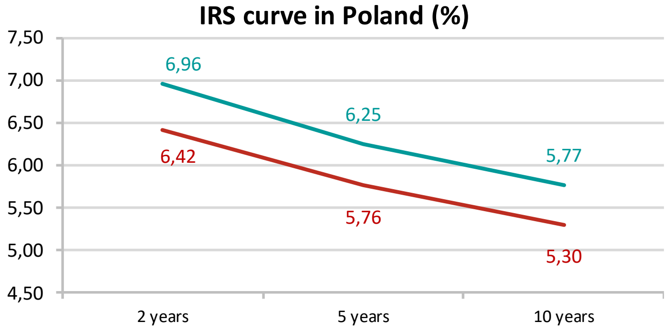
Source: Reuters

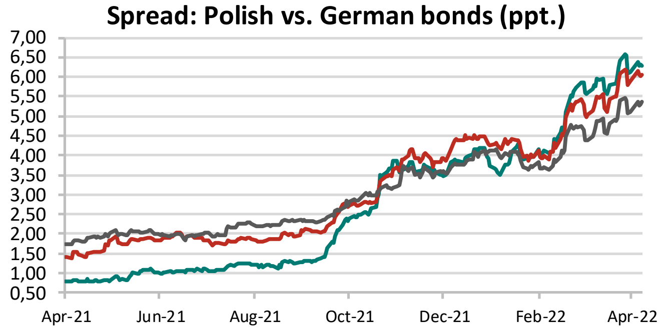
Last week, the EURPLN exchange rate climbed to 4.6501 (weakening of the PLN 0.7%). The EURPLN rate was stable throughout last week and hovered around the 4.64 mark. Numerous data releases from the national economy (employment and average corporate sector wages, industrial production, retail sales) had no significant bearing on the PLN exchange rate.

Last week we also saw a slight weakening of the USD against the EUR, which was supported by lower risk aversion evidenced by the contraction of the VIX index. Nevertheless, the EURUSD rate has been staying in a slight downward trend in recent months, supported by the prospects of a stronger monetary policy tightening in the US than in the Eurozone (see MACROmap of 04/04/2022).

This week, key for the PLN will be the publications of data on GDP and inflation in the Eurozone, which may spur the appreciation of the PLN. Data on domestic inflation will most likely also be positive for the PLN. In our opinion, the remaining data from the Polish and global economy will not have a significant bearing on the PLN rate. The Friday update of Poland’s rating by Moody’s will be announced after the close of the European markets, thus its impact on the PLN exchange rate will materialise only next week. At the same time, the war in Ukraine and the associated increased risk aversion in the region will remain an important factor determining the PLN exchange rate.

Inflation data for Poland and the Eurozone in the spotlight





Source: Reuters

Last week, 2-year IRS rates grew to 6.96 (up by 54bp), 5-year to 6.25 (up by 49bp), and 10-year to 5.77 (up by 47bp). The passing week saw a sharp rise of IRS rates along the entire length of the curve, following the core markets. Increased yields in the core markets are supported by rising expectations of interest rate hikes by major central banks amid persistently strong inflation growth.

This week, the market will focus on data on GDP and inflation in the Eurozone. We believe that it may support a drop in IRS rates. Domestic inflation data may have the opposite effect. In our opinion, the remaining data from the global economy will not have a significant bearing on the curve. The Friday update of Poland's rating by Moody's will be announced after the close of the European markets, thus its impact on IRS rates will materialise only next week. At the same time, IRS rates will remain under the influence of the persistently elevated risk aversion in the region related to the war in Ukraine.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
NBP reference rate (%)	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,50	1,25	1,75	2,25	2,75	3,50	4,50
EURPLN*	4,63	4,56	4,48	4,52	4,56	4,52	4,60	4,60	4,65	4,58	4,58	4,69	4,64	**4,65**
USDPLN*	3,95	3,79	3,66	3,81	3,84	3,83	3,98	3,98	4,10	4,03	4,08	4,18	4,19	**4,15**
CHFPLN*	4,18	4,15	4,07	4,12	4,24	4,18	4,27	4,35	4,47	4,42	4,40	4,56	4,54	**4,53**
CPI inflation (% YoY)	3,2	4,3	4,7	4,4	5,0	5,5	5,9	6,8	7,8	8,6	9,4	8,5	11,0	
Core inflation (% YoY)	3,9	3,9	4,0	3,5	3,7	3,9	4,2	4,5	4,7	5,3	6,1	6,7	6,9	
Industrial production (% YoY)	18,6	44,2	29,6	18,1	9,6	13,1	8,7	7,6	14,9	16,3	18,0	17,6	17,3	
PPI inflation (% YoY)	4,2	5,5	6,6	7,2	8,4	9,6	10,3	12,0	13,6	14,4	16,1	15,9	20,0	
Retail sales (% YoY)	17,1	25,7	19,1	13,0	8,9	10,7	11,1	14,4	21,2	16,9	20,0	16,5	22,0	
Corporate sector wages (% YoY)	8,0	9,9	10,1	9,8	8,7	9,5	8,7	8,4	9,8	11,2	9,5	11,7	12,4	
Employment (% YoY)	-1,3	0,9	2,7	2,8	1,8	0,9	0,6	0,5	0,7	0,5	2,3	2,2	2,4	
Unemployment rate* (%)	6,4	6,3	6,1	6,0	5,9	5,8	5,6	5,5	5,4	5,4	5,5	5,5	**5,3**	
Current account (M EUR)	124	1282	491	-464	-1017	-527	-1817	-1166	-1077	-2491	-2491	-2491		
Exports (% YoY EUR)	14,9	78,9	38,3	15,8	9,2	23,9	9,4	8,9	7,4	26,6	26,6	26,6		
Imports (% YoY EUR)	11,5	69,6	46,4	29,2	16,3	33,6	22,4	24,2	24,3	35,5	35,5	35,5		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland											
Indicator	2021				2022				2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	-0,6	11,3	5,5	7,6	6,1	3,0	2,9	2,5	5,9	3,5	4,3
Private consumption (% YoY)	-0,2	13,0	4,7	8,0	7,3	5,0	4,2	3,8	6,1	5,0	4,5
Gross fixed capital formation (% YoY)	-1,3	3,0	6,6	5,2	6,9	4,8	5,8	5,8	3,8	5,8	7,0
Export - constant prices (% YoY)	7,4	29,8	7,3	6,1	8,1	7,0	6,2	5,4	11,8	6,6	7,6
Import - constant prices (% YoY)	8,6	33,8	12,5	12,2	12,0	10,8	11,1	10,3	15,9	11,0	10,5
GDP growth contributions: Private consumption (pp)	-0,2	7,2	2,8	3,9	4,4	2,8	2,5	1,9	3,4	2,8	2,6
GDP growth contributions: Investments (pp)	-0,2	0,5	1,1	1,1	0,9	0,7	0,9	1,3	0,7	0,9	1,2
GDP growth contributions: Net exports (pp)	-0,1	0,4	-2,1	-2,5	-1,6	-1,7	-2,7	-2,7	-1,2	-2,2	-1,6
Current account (% of GDP)***	2,8	1,9	0,9	-0,6	-1,3	-1,4	-1,6	-1,7	-0,6	-1,7	-1,9
Unemployment rate (%)**	6,4	6,0	5,6	5,4	5,3	5,0	5,1	5,4	5,4	5,4	5,4
Non-agricultural employment (% YoY)	0,1	3,1	2,7	2,6	1,5	0,8	0,7	0,5	2,1	0,9	0,1
Wages in national economy (% YoY)	6,6	9,6	9,4	9,8	10,2	10,0	9,5	9,1	8,9	9,7	9,5
CPI Inflation (% YoY)*	2,7	4,5	5,5	7,7	9,6	12,1	11,6	9,8	5,1	10,8	6,2
Wibor 3M (%)**	0,21	0,21	0,23	2,54	4,77	5,63	5,63	5,63	2,54	5,63	5,63
NBP reference rate (%)**	0,10	0,10	0,10	1,75	3,50	5,25	5,50	5,50	1,75	5,50	5,50
EURPLN**	4,63	4,52	4,60	4,58	4,64	4,75	4,55	4,50	4,58	4,50	4,40
USDPLN**	3,95	3,81	3,98	4,03	4,19	4,28	4,06	3,91	4,03	3,91	3,64

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 04/25/2022				
10:00	Germany	Ifo business climate (pts)	Apr	90,8		89,1
14:00	**Poland**	**M3 money supply (% YoY)**	**Mar**	**8,0**	**7,8**	**7,7**
		Tuesday 04/26/2022				
10:00	**Poland**	**Registered unemplyment rate (%)**	**Mar**	**5,5**	**5,3**	**5,4**
14:30	USA	Durable goods orders (% MoM)	Mar	-2,1	0,5	1,0
15:00	USA	Case-Shiller Index (% MoM)	Feb	1,8		1,5
16:00	USA	Richmond Fed Index	Apr	13,0		
16:00	USA	New home sales (k)	Mar	772		765
16:00	USA	Consumer Confidence Index	Apr	107,2	109,0	108,0
		Thursday 04/28/2022				
11:00	Eurozone	Business Climate Indicator (pts)	Apr	1,67		
14:00	Germany	Preliminary HICP (% YoY)	Apr	7,6	7,8	7,6
14:30	USA	Initial jobless claims (k)	w/e	184		
14:30	USA	Preliminary estimate of GDP (% YoY)	Q1	6,9	0,9	1,1
		Friday 04/29/2022				
10:00	Germany	Preliminary GDP (% QoQ)	Q1	-0,3	0,0	0,2
10:00	Eurozone	M3 money supply (% MoM)	Mar	6,3		6,2
10:00	**Poland**	**Flash CPI (% YoY)**	**Apr**	**11,0**	**11,6**	**11,3**
11:00	Eurozone	Preliminary GDP (% QoQ)	Q1	0,3	0,2	0,3
11:00	Eurozone	Preliminary HICP (% YoY)	Apr	7,4	7,3	7,4
14:30	USA	Real private consumption (% MoM)	Mar	-0,4		
14:30	USA	PCE Inflation (% YoY)	Mar	6,4	6,8	
14:30	USA	PCE core inflation (% YoY)	Mar	5,4	5,3	5,3
15:45	USA	Chicago PMI (pts)	Apr	62,9		62,0
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Apr	65,7	65,7	65,7

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank

** Reuters

Jakub BOROWSKI
Chief Economist
tel.: 22 573 18 40
jakub.borowski@credit-agricole.pl

Krystian JAWORSKI
Senior Economist
tel.: 22 573 18 41
krystian.jaworski@credit-agricole.pl

Jakub OLIPRA
Senior Economist
tel.: 22 573 18 42
jakub.olipra@credit-agricole.pl