

Opinion of the Chief Economist of the Union of Entrepreneurs and Employers: inflation and growth – what might take place in the months to come

In January 2023, the consumer price index amounted to more than 17% year-on-year. This is in fact a very high inflation level; one that raises concerns with regard to inflation in the long term (I shall elaborate on that matter separately). This concern is further exacerbated by the fact that price increases in the euro area have clearly slowed down, whereas in Poland there are no signs of such trend. It seems, however, that in spite of negative signals, one should expect disinflation in the short term – judging from the seasonal price dynamics and a number of other factors.

There has been much talk of disinflation from the beginning of this year, ever since this term was used by FED Chair Jerome Powell. Disinflation is a process of price growth decrease; it is not tantamount to a price decrease though many consumers would surely welcome such a change in prices. In other words (and simpler terms), disinflation is the slowdown in the rate of inflation, as a result of which price growth decelerates or stops. The stabilisation on commodity markets (energy markets in particular), the risk-off or decrease in investment risks (for example related to the Russo-Ukrainian War) are named among the reasons for disinflation that might take place in upcoming months. The economic slowdown that has already been observed is also expected to contribute to disinflation, resulting in a decrease in consumer demand (and thus a decrease in the pressure on price increases).

However, the dynamics of inflation slowdown do not have to be significant. They will certainly be reinforced by a global economic slowdown with the still looming threat of recession in developed economies, but on the other hand, the situation on the energy commodity markets (and the energy crisis in Europe resulting from it) is far from stable. Last winter was quite mild. Moreover, we saw in Asia a decline in demand for liquefied natural gas due to China's anti-pandemic policy, as well as due to the very high level of prices in the first half of the year, which limited the ability to purchase on the market by such countries as Pakistan. Nonetheless, these events were of a more or less one-off nature, and this year the availability of natural gas to meet European needs may be lower than a year ago. Should this happen, it might translate into another wave of price increases (natural gas, crude oil, and energy), which in turn could sustain the growth of consumer prices in Europe, including Poland.

Also, the geopolitical situation in Eastern Europe is far from stable. Recent reports speak of a growing risk of conflict escalation. Such an escalation will impact risk perception and, consequently, will probably stimulate growth of raw materials prices. The same goes for all subsequent operations aimed at limiting the export capacity of the aggressor, that is Russia. That country remains one of the main suppliers of crude oil and natural gas in global terms, in spite of sanctions imposed by Western countries which significantly reduced their scale of exports or their stream of revenue in particular.

Finally, it is worth recalling that, in recent years, the concept of deglobalisation, meaning the collapse of global supply chains and value creation, has become part of the glossary of economic experts, mainly due to the growing tension between the US and China, the increasing uncertainty concerning the geopolitical situation, and the collapse of the political and economic order under the leadership of the US after 1989. Deglobalisation will not be conducive to price drops, because part of the production may “come back home” from low-cost regions to places where labour costs more due to non-economic reasons.

Therefore, factors that may potentially lead to a slowdown in inflation, at least in the short term, might in an unfavourable scenario be offset by factors further driving it. This in turn would prolong the inflation phase of the current crisis. Furthermore, it is also possible for inflation to return after a relatively short period of disinflation. Historical experience supports this assumption: periods of increased inflation would often interweave with temporary periods of price slowdown preceding subsequent waves of increases. One can also expect that post-crisis economic recovery may be of an inflationary character, backed by yet another wave of fiscal expansion and equally expansive monetary policy, boosted by elections in a number of developed countries, including the US. Moreover, there are significant long-term conditions conducive to the inflationary environment looming on the horizon, including, in particular, unfavourable demographics in the entire developed world and beyond, but this is a topic for a separate discussion.

Should we then in this context expect 2023 to be a year of recovery from the crisis for the West and Poland, as indicated by the recently published macroeconomic forecasts? Possible, although not yet certain. To boot, I would expect the crisis to take shape of the one we had seen in the 1970s. A period of slow growth might be a long one, and between the waves of recession, moments of recovery can turn out to be rather shabby.



Growing uncertainty regarding the future, declining real income caused by inflation (not to be changed by disinflation) – these factors will not be conducive to the recovery of some sectors of the economy. Demand for cars has been decreasing astonishingly fast in Western Europe and the US in recent years. This year, that trend may continue. Consumers' decreasing purchasing power will also reduce the demand for a number of services, such as tourism or HORECA. This will not always translate into a deterioration of the situation of Polish providers of such services: some consumers may resign from going abroad in favour of enjoying their holidays in Poland (although others will give up holidays altogether). The decline in demand also affects the real estate market. Unless the situation changes this year, we might observe a decline not only in real but also in nominal real estate prices.

Therefore, let us expect a fall in inflation, but let us not hope this is the end of our problems. With that same attitude, let us look forward to an economic recovery, but knowing it may be weak and short-term. Even though Poland may indeed benefit from the reallocation of production following deglobalisation. Let us hope this year there will be less economic turbulence than in previous years. However, the economic situation in Poland, Europe and around the world is such that unfortunately there is no guarantee whatsoever.

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