Bank Zachodni WBK

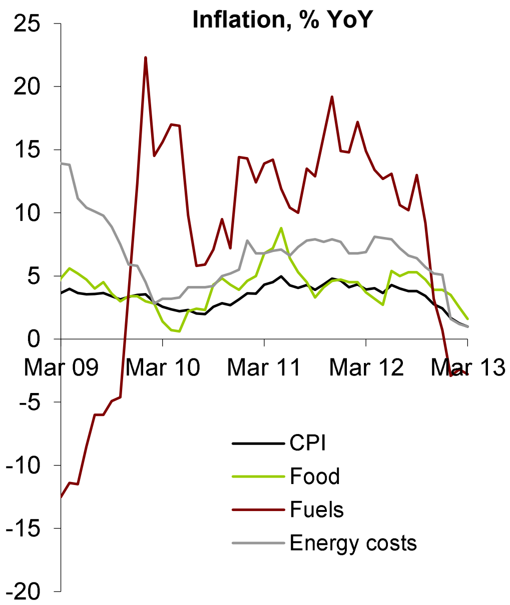
Instant comment

Low inflation and low imports

15 April 2013

In line with our expectations, inflation declined to 1%YoY in March. Given comments of NBP governor after the April's MPC meeting, this data should be neutral for the perspective of monetary policy decisions. Publications on industrial output, retail sales and labour market will be most important and not necessarily for March, but also next month(s). It is worth to notice that currently CPI inflation is falling mainly due to statistical effect of high base, but in second half of the year the situation may reverse.

The current account deficit reached only €854m in February despite deep negative balance in transfers account. This was due to an all-time high surplus in foreign trade (€0.6bn). Highest ever net exports was due to very low imports (annual decline by 8.8%).



Inflation declines to 1% – no surprise then

In line with our expectations, inflation declined in March to 1%YoY (slightly more than 1.1%YoY expected by the consensus). The interest rate market has been strengthening since the beginning of the day and thus the release itself triggered only slight decline of yields and money market rates.

In monthly terms prices increased by 0.2%, most during last 5 months and most since April 2012 if we exclude October 2012. Clear decline of CPI was due to base effect – in March 2012 prices increased by 0.5%MoM mainly due to increase in food prices. This year food prices climbed by only 0.2%MoM (roughly in line with our forecast). However, some surprises were recorded in other categories – only slight increase of clothing and footwear (by 0.4%MoM) due to new collections, further decline in communication prices (by 2.9%MoM) resulting from February's discounts on the mobile phone market, higher prices in recreation and culture due to new packages introduced by cable and satellite TV operators. All in all, today's data is not surprising and should be neutral also from the monetary policy point of view. As is was underlined after the April's meeting of the MPC, the medium term outlook for inflation is more important than current data.

It is obvious that during coming months inflation will continue to decline due to high base effect from the past year (increase of gas prices in April 2012!). The annual rate of inflation will drop to 0.7%. Still, it is worth to notice that on monthly terms prices will inch up again by 0.2-0.3%. This means that the considerable part of the annual increase will be reached in only two months.

We expect the inflation to stabilize in May and June and start to accelerate in 2H due to low base effect (average monthly change of prices in 2H2012 was negative!).

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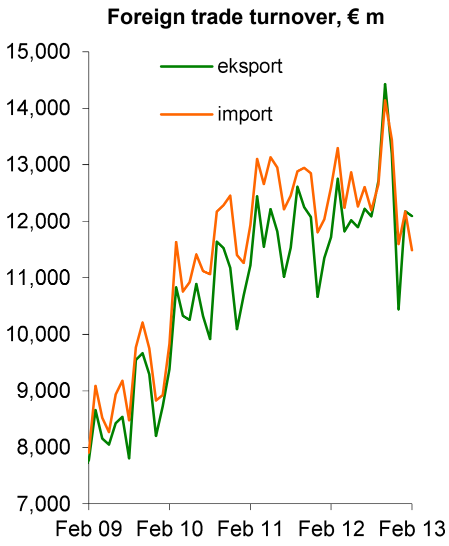

Considerable surplus in foreign trade – weak imports!

February brought improvement in balance of payments. Current account deficit narrowed (to €854m from €1546m in previous month) more significantly than expected (both our and market expectations showed deficit near €1.5bn). It came from mainly significant improvement in trade balance – surplus amounted to €602m (!), with exports growth by 3.2%YoY and imports decline by 8.8%YoY. While exports volume was more or less in line with our expectations, sharp decrease in imports surprised on negative side. It might have resulted from a decline in not only investment, but also consumption imports (which was earlier suggested by February's retail sales data). As we mentioned in special focus in April's MACROscope, considerable decline in imports during economic downturns was improving trade balance (but only temporarily). In coming months we still expect relatively good exports data (Polish products remained relatively competitive on international markets), while imports data might show gradual upward move.

In case of other elements of current account, today's data did not differ much from our expectations – deficit of incomes (-€1.4bn) and surplus in services (€350m) persist while seasonally adjusted balance of transfers was negative due to contribution to the EU budget.

In February the inflow of foreign direct investments reached €613m amid decline of foreign portfolio investments by ca. €1.2bn (mainly due to withdrawal from debt securities of ca. €1bn). Nevertheless, at the end of February, 12-month current account deficit (€12.1bn) was fully covered by the inflow of long-term capital.

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