Bank Zachodni WBK
Grupa Santander

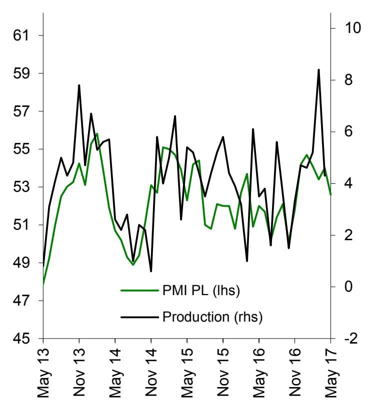
INSTANT COMMENT

1 June 2017

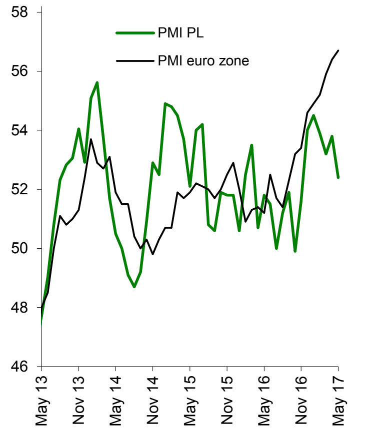
Cracks in the sentiment – PMI down

PMI index for Polish manufacturing in May fell to 52.7pts (the lowest level in 6 months) from 54.1pts due to a decline in subindices for output, new orders and employment. This move was in line with the development of Statistics Office's business climate indices for May reported earlier and suggests that the Polish economic growth will stabilize at 4%. At the same time, the PMI suggested a strong rise of price pressure on Polish producers.

PMI and industrial output (s.a.)



PMI in manufacturing



PMI index for Polish manufacturing in May fell to 52.7pts (the lowest level in 6 months) from 54.1pts due to a decline in subindices for output, new orders and employment (the slowest job creation in seven months). To be precise – these subindices still point to expansion, but at a less pronounced rate than in the previous months. The March surge of industrial output (in seasonally adjusted terms) looked unsustainable when compared with the PMI performance at that time, and the mix of worse-than-expected April production and now the unexpectedly weak May sentiment index suggests that all the forecast updates made for the Polish real economy based on the mentioned outstanding March output start to look a bit stretched. The imperfect breakdown of 1Q17 GDP growth (not to say 'disappointing', because we still talk about a hefty 4.0% y/y growth) also raised second thoughts on what the economy can show this year.

The 1.4-point monthly drop of PMI is nothing uncommon. There were four declines of this or larger size recorded in the course of 2016. That said we are already down 2.1 pts vs January reading of PMI which is striking once one compares this to what happened to Euro zone business sentiment in this period. We could say the Polish sentiment indicator has the quality of a leading indicator for its Euro zone counterpart (in 2013-2014 in particular, see chart on the left), which raises the question if the poor May PMI for Poland expresses idiosyncratic weakness or it is a harbinger of a correction in the broader, European sentiment. The disappointing Czech PMI (down from 57.5 to 56.4, while the market expected a rise to 57.9) suggests the latter as the two countries form an important part of the supply chain for the Western Europe.

This move in Polish PMI was actually in line with the development of Statistics Office's business climate indices for May reported earlier (the main index showed the first significant drop since November) and suggests that the Polish economic growth will stabilize at 4% y/y in the quarters of 2017, but the high dependance of 1Q result on inventory changes (0.7pp) is a risk factor.

At the same time, the PMI report suggested a strong rise of price pressure on Polish producers who claimed in the survey that they managed to pass on the input price inflation to customers. That said the sub-index of output charge inflation moved to a six-month low and we assume that PPI slowed down from 4.3% y/y to 2.8% in May while the market consensus is 3%.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40

email: ekonomia@bzwbk.pl Web site: http://www.bzwbk.pl

Piotr Bielski	+48 22 534 18 87
Marcin Luziński	+48 22 534 18 85
Grzegorz Ogonek	+48 22 534 19 23
Izabela Sajdak, CFA	+48 22 534 18 86
Marcin Sulewski	+48 22 534 18 84

TREASURY SERVICES:

Poznań	+48 61 856 5814/30
Warszawa	+48 22 586 8320/38
Wrocław	+48 71 369 9400