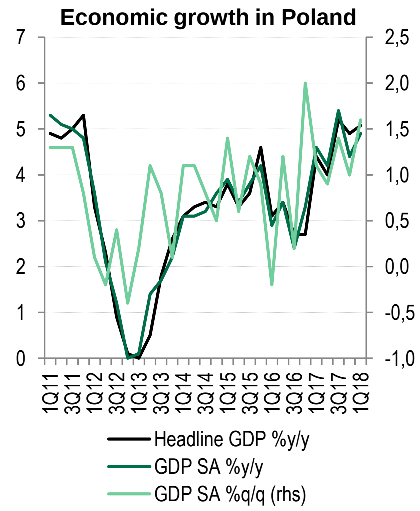
Bank Zachodni WBK
Grupa Santander

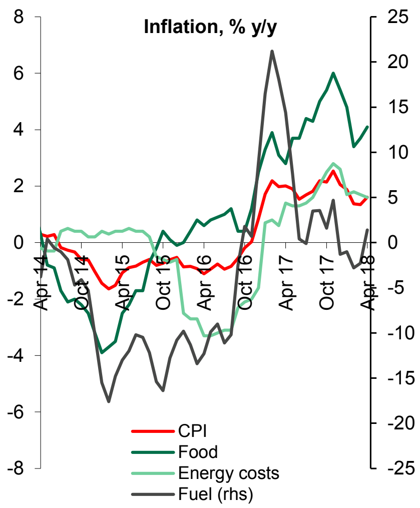
ECONOMIC COMMENT

15 May 2018

GDP growth above 5% again

The flash release showed GDP growth at 5.1% y/y vs 4.9% in 4Q17, while it was broadly expected that Poland already entered the slowdown phase of the cycle. We thought GDP managed to grow at the previously recorded pace of 4.9% y/y. We think the economy will gradually decelerate in the rest of the year, with the next reading around 4.5% y/y. CPI in April was confirmed at 1.6% y/y versus 1.3% y/y in March. CPI went up mostly due to higher prices of fuels and food. Core inflation ex food and energy prices fell to 0.6% y/y in April from 0.7% y/y in March. In our view, core inflation will accelerate and exceed 1.5% y/y at the year-end. CPI will continue to climb and may temporarily surpass 2.0% in mid-2018, but will retreat below this level at the end of the year. With CPI below the official target (2.5% y/y), the Monetary Policy Council can feel comfortable and will not change rates until end of 2019, in our view.





GDP above expectations again

Polish GDP surprised positively in 1Q18. The flash release showed economic growth at 5.1% y/y vs 4.9% in 4Q17, while it was broadly expected that Poland already entered the slowdown phase of the cycle. We thought GDP managed to grow at the previously recorded pace of 4.9% y/y. Details will be revealed at the end of May, but we estimate that private consumption was the main contributor, possibly staying around 5% y/y, and investments might have pushed to c10% y/y. Net exports were probably neutral or contributed slightly negatively to the economic growth in 1Q18. We think the economy will gradually decelerate in the rest of the year, with the next reading around 4.5% y/y.

Seasonally-adjusted GDP for 1Q18 showed 4.9% y/y, much above 4.4% y/y recorded in 4Q17, but also visibly below the peak from 3Q17 (5.4%). In q/q terms the economy accelerated from 1.0% in 4Q17 to 1.6% in 1Q18. This is the strongest print since 4Q16, shown at 2.0% q/q.

CPI up, core inflation down

In April CPI rose by 1.6% y/y in line with the flash reading and up from 1.3% y/ in March. The higher inflation in annual terms was mainly due to the higher prices of transport and food. Fuel prices rose by 2.8% m/m and transport services by 7.7% m/m – probably due to higher prices of the air transport tickets. Food prices increased by 0.4% m/m, mainly fueled by higher vegetable prices. Moreover, according to our to estimates, the gas prices went up slightly (by 0.3% m/m).

As regards core categories, the down trend was recorded. We estimate that core CPI excluding food and energy prices fell in April to 0.6% y/y from 0.7% y/y with “telecommunications” (-0.6% m/m) and “other goods and services” generating the most of the down pressure. As we wrote before, transport services prices went up, but actually less than a year pulling the annual core headline down. Prices of goods rose by 1.5% y/y vs 1.1% y/y and services by 1.7% y/y vs 2.0% y/y in March.

We expect core inflation to accelerate in the months to come breaking 1.5% y/y at the year-end. Headline CPI should follow suit and might temporarily surpass 2.0% in mid-2018 for and then return below this level at the end of 2018. With inflation comfortably below the target (2.5%), the MPC will be allowed to run its “wait-and-see” policy and interest rates could rise only in late 2019.

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