

01 October 2018

Economic Comment

CPI and PMI decreased more than expected

CPI inflation dropped to 1.8% y/y in September after holding for three months at 2% y/y. This is a downside surprise. We estimate that core inflation stayed at 0.9% y/y or possibly decreased to 0.8%, instead of rising to 1% as we had previously thought. Without a clear upward trend in core inflation, the headline CPI growth may end the year below 2%. In September, the Poland's manufacturing PMI fell to 50.5 from 51.4pts in August amid declining new orders, especially from abroad.

Inflation went down in September

CPI inflation dropped to 1.8% y/y in September after holding for three months at 2% y/y. We thought that another 2.0% was likely, market consensus was 1.9% ahead of the publication.

From the limited information Stats Office provides in the flash release we estimate that core inflation stayed at 0.9% y/y or possibly decreased to 0.8%. The data for August suggested that core CPI was about to start an upward trend, but this may be yet again postponed. There might have been a one-off drop among core components, as the overall economic situation suggests a rise of underlying price trends.

Food prices (+0.6% m/m) grew close to what we expected having adjusted our estimates for drought effects in several categories. On the other hand Stats Office indicated a much smaller monthly increase in fuel prices than we assumed.

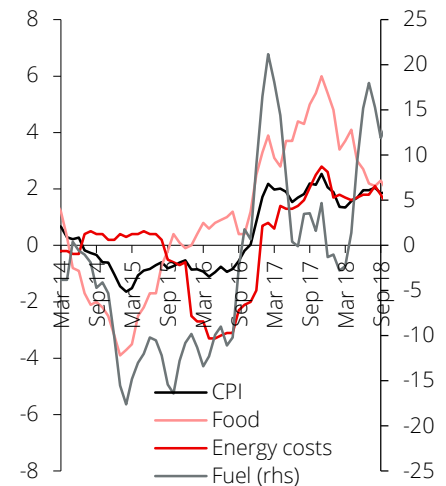
Drought effects in food and higher commodity prices are likely to help offset the negative base effect, but with core inflation still lacking a clear upward trend, the headline CPI growth may end the year below 2%.

Manufacturing PMI down to 50.5 pts

In September, the Poland's manufacturing PMI fell to 50.5 from 51.4pts in August. The index was dragged lower by fall in new orders (subindex below neutral mark of 50pts) and especially new export orders, which were at the lowest level in 4 years. Output, employment, backlog and price indices also went down.

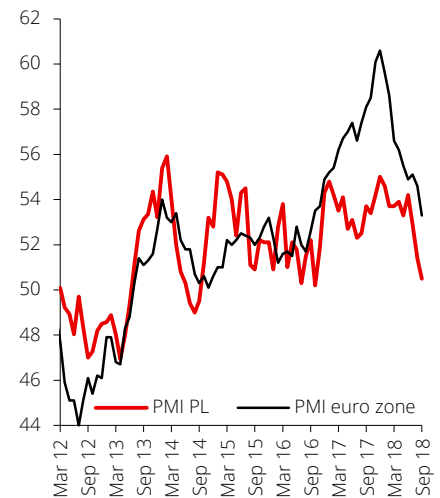
The index is probably suffering from impact of trade wars and is in line with our forecasts of economic slowdown in Poland in 2H18: 5%+ growth from 1H18 is unlikely to be repeated.

Selected CPI inflation components, %/y



Source: Stats Office, Santander Bank Polska

Manufacturing PMIs



Source: IHS Markit, Santander Bank Polska

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