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Economic Comment

GDP and CPI only slightly lower

Piotr Bielski, +48 22 534 18 87, piotr.bielski@santander.pl
Grzegorz Ogonek, tel. +48 22 534 19 23, grzegorz.ogonek@santander.pl

GDP growth in 2Q19 slowed to 4.5% y/y, slightly above flash estimate. The breakdown shows that domestic demand still remain the main driver of growth and it is unlikely to change, especially in the environment of worsening global climate. We predict Polish economy to slow further in the coming quarters, but very gently, as the fading investment growth and weaker net exports will be partly offset by fiscal boost to private consumption.

Inflation retraced a bit in the summer period, partly due to high base effects, but it looks that the underlying trends are still strong and we expect both CPI and core inflation to jump further at the end of this year and start of next. In January 2020 CPI may be above 4% y/y, and core inflation near 3% y/y.

Overall, the data will not change the monetary policy outlook, in our view – rates will remain stable for at least next year. We reiterate that expectations for rate cuts in Poland, priced-in by the market, are unjustified given the inflation profile and still relatively healthy economic growth.

Stronger consumption vs weaker external trade

Poland's GDP growth reached 4.5% y/y in 2Q19, a bit above flash estimate 4.4%. The seasonally adjusted figure remained unchanged at 0.8% q/q (vs 1.4% in 1Q19). The main components of growth were broadly in line with our expectations – private consumption rose 4.4% y/y (vs 3.9% in 1Q), fixed investments decelerated to 9% y/y (from 12.6% in 1Q). The main difference vs our assumption was that the GDP growth was slowed by worsening contribution of net exports (zero vs +0.7pp in 1Q), rather than by inventory decline (which decreased only slightly). Overall, the data do not change our view on the economic outlook for Poland. In the coming quarters we expect to see a continuing gentle slowdown of GDP growth – to c.4.0% y/y and 4.3-4.4% average in entire 2019. While private consumption will re-accelerate to c5% y/y boosted by fiscal package, investments will continue slowing and net exports' contribution will worse further. As regards 2020, we stick to our forecast of 3.6% GDP growth, as the deteriorating global economy will be still limiting external demand, fiscal impulse for consumption will be fading and investment growth will moderate after the EU funds absorption peak.

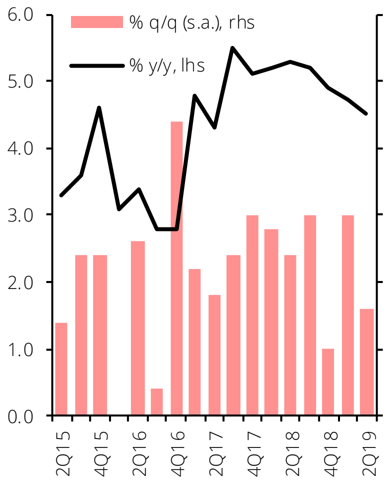
GDP growth and its components (% y/y)

	2017	2018	2Q18	3Q18	4Q18	1Q19	2Q19
GDP	4.8	5.1	5.3	5.2	4.9	4.7	4.5
Domestic demand	4.9	5.5	4.9	6.1	4.8	4.2	4.8
Total consumption	4.1	4.5	4.6	4.5	4.3	4.4	4.1
Private consumption	4.5	4.5	4.8	4.4	4.2	3.9	4.4
Public consumption	2.9	4.7	4.5	5.2	4.7	6.4	3.4
Gross accumulation	7.9	9.6	5.9	12.4	6.1	3.2	7.5
Fixed investment	4.0	8.7	6.0	11.3	8.2	12.6	9.0
Stock building *	0.8	0.4	0.1	0.4	-0.3	-1.1	-0.1
Net export *	0.2	-0.2	0.6	-0.6	0.3	0.7	0.0

* contribution to GDP growth (percentage points)

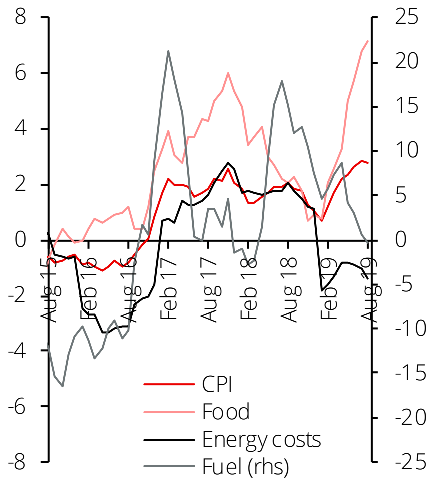
Source: GUS, Santander

Polish GDP growth



Source: GUS, Santander

Selected inflation components, % y/y



Source: GUS, Santander

Summer break in CPI acceleration

August flash CPI release for Poland showed inflation declining from 2.9% y/y to 2.8%, in line with the consensus and our forecast. We estimate that core inflation also eased, from 2.2% y/y to 2.1%, possibly 2.0%.

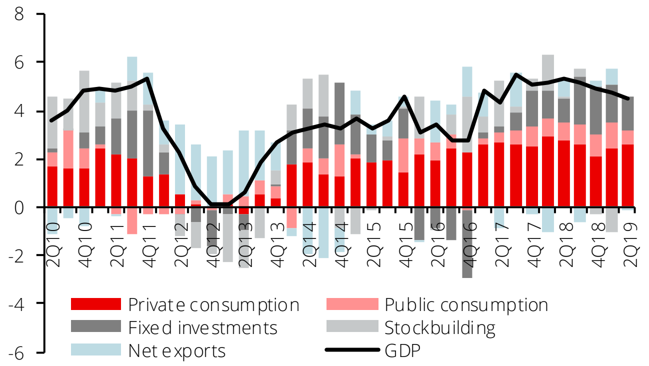
In August the CPI growth had to fight the negative base effect – the decline of the headline figure does not mean that inflationary pressure has eased. In 4Q inflation is likely to push above 3% y/y, possibly to 3.5% which is the formal upper bound of the tolerance range for the MPC, while core CPI may end the year in the 2.5-3% y/y area.

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Luziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

Food price growth remained relatively strong in August in m/m terms, at -0.3% it was the strongest for this month since 2006, despite the fact that the previous reading was also historically high. The rise of inflation this year is based on acceleration in services as well as food price growth due to adverse weather conditions and global factors (ASF). The reading is unlikely to affect the MPC rhetoric.

GDP growth breakdown (% y/y)



Source: GUS, Santander