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Economic Comment

GDP slows down below 4%, CPI hits the target

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GDP growth slowed to 3.9% y/y in 3Q19 versus 4.6% y/y in 2Q19, according to flash estimate. The slowdown was a bit more pronounced than we expected (4.1% y/y), but data from 1H was revised upwards, so our forecast for the entire year remains intact (4.3%). Final reading of October CPI confirmed a decline of inflation to 2.5% y/y from 2.6%. We believe by the end of the year inflation should rebound to almost 3% y/y. The data is supporting the MPC strategy of stable rates.

GDP slowing a bit more than expected

GDP growth slowed to 3.9% y/y in 3Q19 versus 4.6% y/y in 2Q19 (revised from 4.5%), according to flash estimate. Seasonally adjusted numbers came in quite strong, at 1.3% q/q in 3Q19 (versus 0.8% y/y q/q in 2Q19).

The slowdown was a bit more pronounced than we expected (4.1% y/y), but data from 1H was revised upwards, so our forecast for the entire year remains intact (4.3%). The data comes generally in line with broad weakening observed in high frequency data (industrial and construction output, retail sales, leading indicators) and we are expecting some more slowdown to come. So far, our forecast for 2020 sits at 3.5% y/y, so we are not expecting a pronounced weakening of business climate. We will be surely fine-tuning our forecasts after we get to see the detailed breakdown, which is due for release on 29 November, and in our view will show strong private consumption and weakening investment growth. The data is supporting the MPC strategy of stable rates and is in line with NBP forecast, which have just shown a lower GDP path and stressed downward risks.

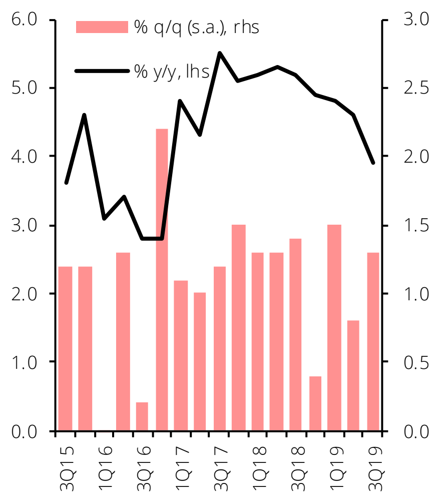
Inflation confirmed at the target level

Final reading of October CPI confirmed 2.5% y/y, shown in the flash release. Services prices inflation stayed at 4.8% y/y after several months of acceleration, goods prices inflation eased to 1.7% y/y from 1.8%. Seeing the detailed release we estimate that core inflation was 2.4-2.5% y/y in October vs 2.4% previously.

Food remained the main contributor to inflation, with prices growing 6.1% y/y in this category (vegetables eased some more – to 16.3% y/y from 23.9%, but fruit prices grew at a faster rate – 12.5% y/y vs 8.1% previously, and so was pork). Price growth in some services categories like hairdressing and grooming, recreation and culture, stopped rising in y/y terms, but we believe the labour cost pressure and still decent domestic demand might lead to more acceleration in the months to come. We were surprised by relatively high readings of price changes in clothing and footwear, given a strong previous m/m reading, education was another category coming stronger than expected.

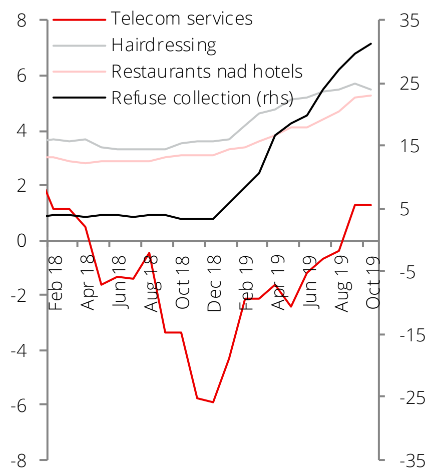
The decline of headline inflation from September's 2.6% y/y should be temporary and by the end of the year it should rebound to almost 3% y/y. There is still no government decision on keeping the electricity prices for households frozen in 2020, which will be an important factor for further CPI path.

GDP growth in Poland



Source: GUS, Santander

Selected CPI components, % y/y



Source: GUS, Santander

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