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Economic Comment

Domestic demand slowing

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GDP growth decelerated to 3.9% y/y, confirming the flash estimate. The slowdown was driven by softening of main components of domestic demand: investments, private consumption and inventories, while net exports surprised positively, adding 0.8pp to GDP growth. We expect Polish economy to keep slowing in the coming quarters at a moderate pace, as the impact of external shocks will gradually filter to investments and trade.

CPI inflation inched up to 2.6% y/y in November, a bit less than we estimated and we think the final reading may be revised higher after taking into account rise of fuel and food prices at the end of the month. Core inflation rose to 2.6%, according to our estimate. We still think that the peak for both CPI and core inflation will take place 1Q20.

Investment and consumption slowed, export accelerated

GDP growth in Poland slowed to 3.9% y/y in 3Q19 and rose 1.3% q/q after seasonal adjustment, confirming the flash reading released two weeks ago.

As we have recently been warning, there was a notable slowdown in fixed investments, to 4.7% y/y (slowest growth in two years) from 9.1% y/y in 2Q. This slowdown was probably driven to large extent by reduced public investment expenditure (mainly on infrastructure), as we can deduct for example from the local government's financial data. Private investments in total were still doing not so bad in the third quarters, it seems, although their growth is probably also slowing, which was heralded by the data from big companies (where investment growth fell from 17% in 2Q to 11% y/y in 3Q) and by recent signals from banks about plummeting firms' demand for new investment financing.

Private consumption also disappointed, slowing to 3.9% y/y from 4.4% in 2Q, so the effect of the additional fiscal stimulus launched ahead of the autumn general elections has not appeared yet. But in general consumption remained the main engine of GDP growth. However, we think that its growth should still accelerate in the coming quarters, which will dampen somehow the effects of negative trends in other areas on GDP growth.

Inventories fell quite significantly in 3Q, deducting c.0.7pp from GDP growth, and they were revised lower also in the two previous quarters. This category usually negatively contributes to economic growth in the slowdown phase and this tendency is unlikely to change in the nearest quarters. Overall, domestic demand slowed to 3.3% y/y in 3Q, contributing the least to GDP growth in almost three years.

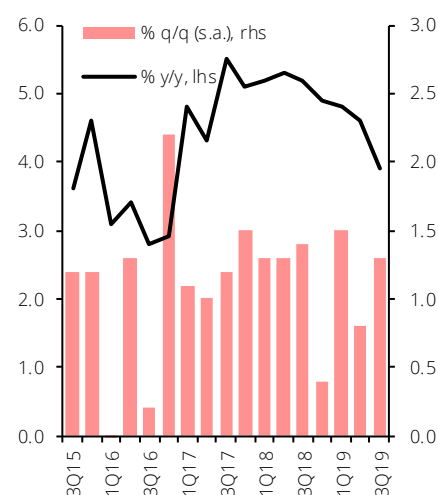
The bright spot in GDP data was net exports, which added 0.8pp to y/y economic growth. Export growth accelerated to 5% y/y, defying the negative trends in European economies. Interestingly, acceleration of export growth in constant prices was mainly due to much lower deflator, which may suggest that Polish companies are once again winning market shares abroad, competing with lower prices during the economic stagnation.

We still expect Polish economy to continue slowing in the coming quarters, as the impact of external shocks will gradually filter to domestic investments and trade. Detailed forecasts will be released in the next MACROscope: 2020 Outlook in December.

Inflation on the rise again

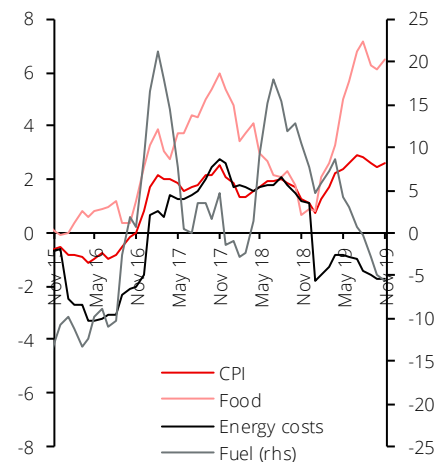
CPI inflation was at 2.6% y/y in November versus 2.5% y/y in October. Scarce details released by GUS show a monthly rise in food (+0.3% m/m), energy (+0.2% m/m) and fuel prices (0.1% m/m). Our estimate of fuel prices was markedly higher (0.8% m/m) and it seems that fuel prices went up mostly in late November, so in our view it is possible that the final reading could be pushed up to 2.7% when the stat office takes into account new data. We estimate that core inflation accelerated to 2.6% from 2.4%. We are expecting both CPI and core inflation to climb further in the months to come and peak in 1Q20. Later on, the economic slowdown will be limiting pressure on price growth.

Polish GDP growth



Source: GUS, Santander

Selected inflation components, % y/y



Source: GUS, Santander

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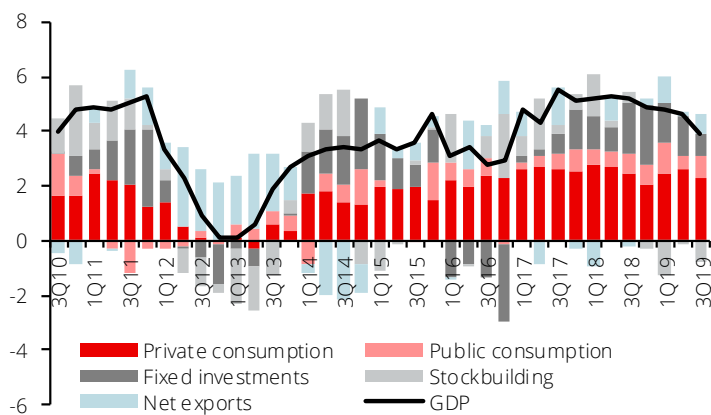
GDP growth and its components (% y/y)

	2017	2018	3Q18	4Q18	1Q19	2Q19	3Q19
GDP	4.9	5.1	5.2	4.9	4.8	4.6	3.9
Domestic demand	4.9	5.3	5.7	4.8	3.9	4.6	3.3
Total consumption	4.1	4.1	4.1	4.0	4.4	4.0	4.0
Private consumption	4.5	4.3	4.2	4.0	3.9	4.4	3.9
Public consumption	2.9	3.6	4.2	3.9	6.3	3.1	4.7
Gross accumulation	7.9	10.1	12.3	6.9	1.5	7.1	0.4
Fixed investment	4.0	8.9	11.0	8.9	12.2	9.1	4.7
Stock building *	0.8	0.4	0.4	-0.3	-1.3	-0.2	-0.7
Net export *	0.3	0.0	-0.3	0.2	1.0	0.2	0.8

* contribution to GDP growth (percentage points)

Source: GUS, Santander

GDP growth breakdown (% y/y)



Source: GUS, Santander

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