

01 September 2020

# Economic Comment

## Lower inflation, lower PMI

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Inflation in August fell to 2.9% y/y and was lower than expected. The surprise most likely resulted from lower core component of CPI and confirms our view that sooner or later strongly negative output gap should result in disinflation.

Manufacturing PMI also surprised to the downside, falling to 50.6 in August. The survey suggests that the pace of economic recovery may slow after quite sharp rebound seen in June-July. However, other business climate surveys painted a bit more optimistic picture.

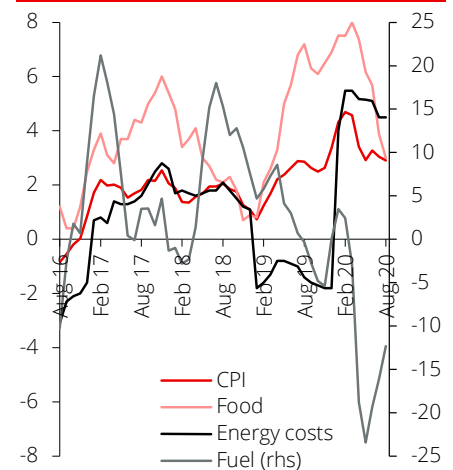
### CPI lower, mainly due to core components

CPI inflation fell to 2.9% y/y in August, according to flash reading, slightly below our forecast and market consensus at 3.0%. Food prices fell 1.1% m/m, in line with our estimate, energy prices rose 0.1% m/m, while fuel prices rose 3.3% m/m, more than we had estimated. Thus, the downward surprise in headline CPI must have come from the core inflation. We think that CPI ex food and energy could have slowed to 4.1% y/y from July's peak 4.3%. Possibly, the disinflationary effects of pandemic-related demand collapse have finally started materialising. We keep our view that inflation will descend further, falling below 2.5% target by the end of this year and well below 2% in 2021.

### PMI lower, but still above 50

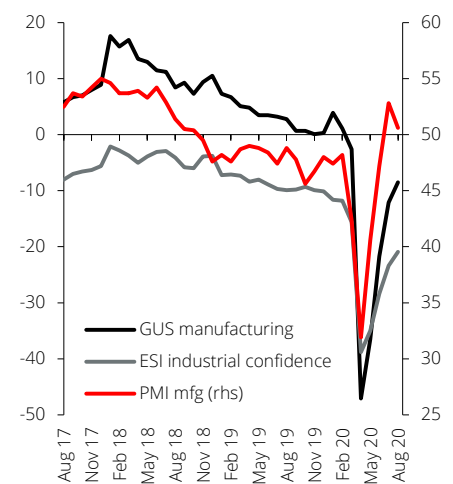
Polish manufacturing PMI fell in August to 50.6 from July's 52.8, which was at odds with our forecast and market consensus (53.0 and 52.9, correspondingly), but also with other available business climate surveys (GUS, ESI), which had pointed to further improvement of companies' confidence in August. The index worsened mainly because of lower new orders. While companies were still reporting improvement of external demand, the domestic demand weakened. Employment was still declining, according to survey, but at slower pace. Upward pressure on production costs strengthened to its six-month high, while prices of finished goods were in decline. Overall, the survey suggests that after a sharp rebound in the first stage of recovery from the lockdown, the pace of improvement in economic activity in the following months may be lower.

CPI and its selected components, % y/y



Source: GUS, Santander

Business climate in manufacturing according to different surveys, pts.



Source: GUS, EC, IHS Markit, Santander

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