

Economic Comment

Red hot May economic indicators

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Inflation rate in Poland rose in May to its highest in a decade, while PMI survey confirmed an accelerating improvement of economic growth, with persisting capacity problems and strengthening price pressures. Other economic indicators for May, to be released later this month, are very likely to look strong as well, confirming the general message that strong economic recovery is under way, and inflation persistence is probably much higher than the Polish central bank wants to admit. We see growing possibility that the MPC will shift its rhetoric towards less dovish in the coming months. The exact timing of the possible start of monetary policy normalisation is likely to be determined by the next data.

Inflation rose to highest level in a decade

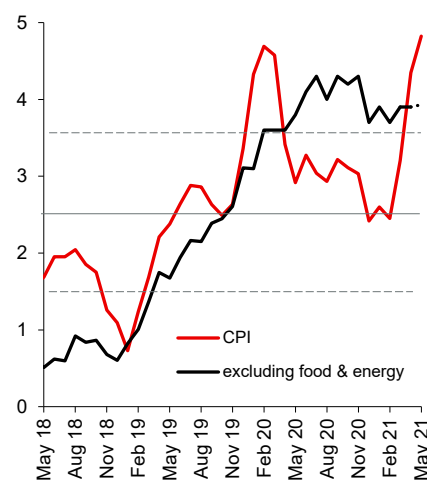
CPI inflation rose to 4.8% y/y in May according to the flash print, in line with our forecast and below market consensus 4.9%. Food prices rose 0.6% m/m, energy prices 0.3% m/m, while fuel costs declined -0.9% m/m. It implies that core inflation excluding food and energy probably remained at the elevated level 3.9% y/y or even rose to 4.0%. Although the CPI reading was slightly below market expectations, it was indeed at very high level (the highest since 2011) and – together with high core measures – confirmed that the underlying price pressures remain significant and could be more persistent than the central bank admits. We think that the CPI growth set a local peak in May and in the next months should correct slightly (hovering near 4% in 2H21), but it will remain well above the official target not only this year, but also in 2022.

The next MPC meetings will be very interesting (especially the one in July, with the new economic projections). We do not rule out further shift of the central bank rhetoric towards less dovish. The recent change in NBP QE programme (no purchase of government bonds at the last QE auction, only one auction planned in June) may be signalling that the central bank is preparing ground for interest rate hike. The timing of this decision is likely to be determined by the next data, showing the strength of economic recovery and the persistence of inflationary trends.

Polish PMI catching up with the rest of Europe

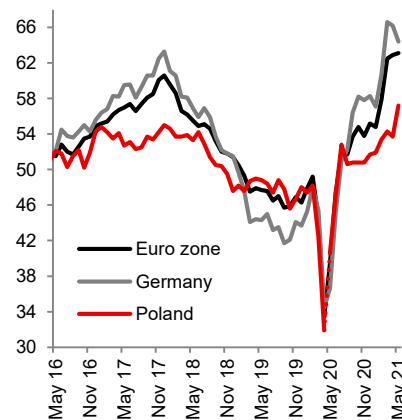
Polish manufacturing PMI jumped to 57.2 in May (the new all-time high) from 53.7 in April, beating our forecast 55.0 and market consensus 54.5. The pace of production and new orders inflow accelerated significantly, contributing the most to index improvement. Interestingly, domestic orders rose more than export orders, although the latter also remained strong. Expectations regarding future production were highest since the start of the year. At the same time, the problems with insufficient capacity in manufacturing persisted, which lead to reduction of inventories and rising backlog. Employment was rising at the fastest rate since April 2017, pressure on supply chains remained significant, and inflationary pressure intensified. The survey heralds further improvement in Polish industry expansion, continued rise in firms' investments and persisting price pressure. Another factor supporting monetary tightening expectations in Poland.

CPI inflation in Poland vs NBP target, %y/y



Source: GUS, NBP, Santander

Manufacturing PMIs



Source: Markit, Bloomberg, Santander

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