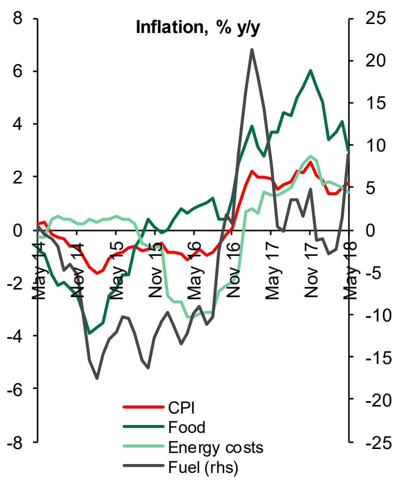
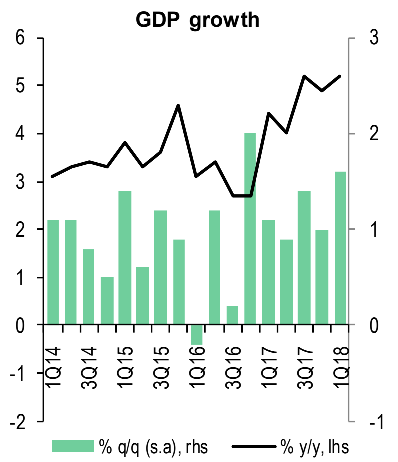
ECONOMIC COMMENT

30 May 2018

GDP above, CPI below forecasts, again

Flash CPI inflation rose in May to 1.7% y/y while GDP growth accelerated in 1Q18 to 5.2% y/y. Once again, inflation data were lower than expected and GDP headline surprised to the upside. High fuel prices and the base effect should push CPI slightly above 2% in the next two months but later in the year inflation is likely to return below this level despite the gradual rise of core inflation. As regards the breakdown of the GDP growth, it looks a bit disappointing as it appears that surge in inventories was the only source of the positive surprise adding as much as 1.9pp, while the remaining components disappointed. We maintain our view that it will be difficult to sustain 5-percent pace of growth in the quarters to come. Still, the slowdown should be very gradual and the total 2018 growth should be only slightly below 4.6% seen in 2017.





Inflation rose, but slower than we expect

According to the flash estimate, CPI rose in May to 1.7% y/y from April's 1.6% y/y, after monthly increase in prices by 0.1% m/m. Our forecast and market consensus were 1.9% y/y. The slower than expected rise in May was mainly due to the unexpected drop in food prices by 0.3% m/m. One year ago food prices rose by 0.8% m/m (after the weather shock, which negatively affected the agriculture production in Spain) while two years ago dropped by 0.1% m/m. Moreover, the growth in fuel prices was slightly lower than we estimated based on weekly observations of fuel prices. According to our estimates, the core inflation remained unchanged in May at 0.6% y/y. We expect that in June-July the CPI growth will rise slightly above 2% but will return below that 2% mark later this year amid high base effect. The data should be neutral for the MPC.

GDP growth reached the peak again

GDP growth in 1Q18 reached 5.2% y/y, slightly above flash estimate at 5.1%. Recall that already the flash reading surprised to the upside as we expected the economic slowdown has already started in early 2018 after reaching a 5.2% peak in 3Q17. In contrast, it turned out that GDP managed to re-accelerate again. After the seasonal adjustment, GDP growth reached 5.0% y/y and as much as 1.6% q/q.

As regards the growth breakdown, it is somewhat disappointing as it appears that the surge in inventories was the only source of the positive surprise in GDP growth in the first quarter adding as much as 1.9pp. Remaining components disappointed.

Pace of exports and imports growth decelerated sharply (exports growth fell from 8.2% y/y in 4Q17 to 1.1% y/y, its slowest since 2009) and imports slowed from 8.9% to 3.5% y/y. As a result, the net exports deducted 1.2pp from the headline GDP figure.

The private consumption growth decelerated to 4.8% y/y from 5.0% y/y in 4Q17 (our forecast: 5.3% y/y), despite the accelerating growth of households income and record high consumer confidence.

Gross investments growth accelerated to 8.1% y/y from 5.4% in 4Q17, which is a pretty good result, but we had expected even stronger growth (+10%). Yesterday's data on local governments investments (+83% y/y!) suggested that this sector has largely contributed to the improvement, adding around 3 pct. points to total investment growth. Still, it looks that private investments started to revive as well (we estimate 5% growth in this sector).

ECONOMIC ANALYSIS DEPARTMENT:

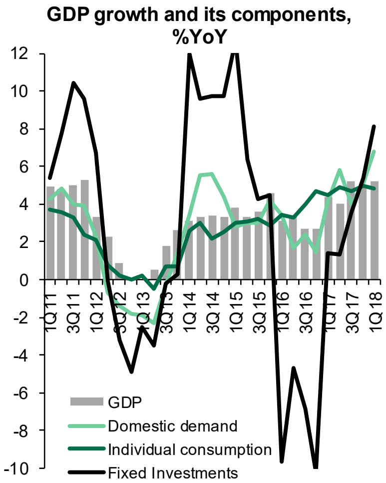
al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40

email: ekonomia@bzwbk.pl Web site: http://www.bzwbk.pl

Piotr Bielski	+48 22 534 18 87
Marcin Luziński	+48 22 534 18 85
Grzegorz Ogonek	+48 22 534 19 23
Konrad Soszyński	+48 22 534 18 86
Marcin Sulewski	+48 22 534 18 84

TREASURY SERVICES:

Poznań	+48 61 856 5814/30
Warszawa	+48 22 586 8320/38
Wrocław	+48 71 369 9400



We cannot exclude that the surprisingly high growth of inventories in 1Q18 is the result of difficulties with proper data classification by the statistical office. Next revisions may show again that part of inventories growth will be re-allocated to the other categories, for example to investments. This has already been the case in the past.

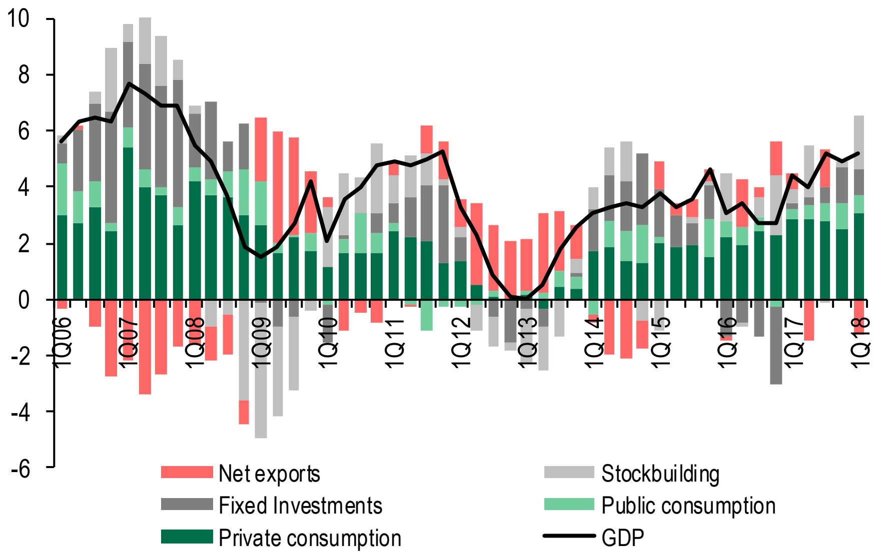
Summing up, GDP growth at 5.2% y/y or 1.6% q/q after aeasonal adjustment is a very good result and places Poland again at the top of the fastest growing EU economies. Still, the growth breakdown is a bit disappointing. We maintain our view that it will be difficult to sustain equally fast pace of growth in the quarters to come amid deterioration of foreign trade (slowing export growth to the EU) and supply constrains in some sectors (labour shortage curbing expansion in construction, among others). Still, the slowdown should be very gradual and the total 2018 growth should be only marginally below 4.6% seen in 2017.

GDP growth and its components (% y/y)

	2015	2016	2017	1Q17	2Q17	3Q17	4Q17	1Q18
GDP	3.8	3.0	4.6	4.4	4.0	5.2	4.9	5.2
Domestic demand	3.3	2.2	4.7	4.1	5.8	4.0	5.1	6.8
Total consumption	2.8	3.4	4.4	3.7	4.2	4.1	5.0	4.5
Private consumption	3.0	3.9	4.8	4.5	4.9	4.7	5.0	4.8
Public consumption	2.4	1.8	3.4	2.1	2.9	3.3	4.8	3.6
Gross accumulation	4.9	-2.4	6.2	5.0	11.9	2.8	5.5	21.0
Fixed investment	6.1	-8.2	3.4	1.4	1.3	3.6	5.4	8.1
Stockbuilding *	-0.2	1.2	0.6	0.5	1.9	-0.1	0.1	1.9
Net export *	0.6	0.8	0.1	0.6	-1.5	1.4	0.0	-1.6

* contribution to GDP growth (percentage points)

GDP growth breakdown, % y/y



Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854, Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.