ECONOMIC COMMENT

14 August 2018

Stable economic growth, stable inflation

CPI inflation in July was 2.0% y/y, in line with the flash estimate, and at the same level as in June. The breakdown of the data did not reveal any significant surprises and it seems that the core inflation, excluding food and energy, remained also unchanged at 0.6% y/y. We think that June-July saw the local peak for the headline inflation and in the coming months CPI growth should gradually subside due to high base effects, towards 1.6% y/y in December. Meanwhile, the underlying inflation should be moving the opposite way (towards 1.2% y/y by year-end), as the cost pressures are mounting.

GDP growth in 2Q18 reached 5.1% y/y, only a notch below the first quarter's 5.2%. The seasonally adjusted growth reached 0.9% q/q (in line with our forecast), vs 1.6% in 1Q18. The breakdown of growth is unknown yet, but we think that private consumption stayed at c5% y/y and investments at c8% y/y. The surprisingly high input to growth from inventory changes in 1Q in our view almost disappeared in 2Q, to the benefit of investments and export growth.

The data will be neutral for the Monetary Policy Council, in our view, confirming a scenario of stable economic growth without major inflationary pressure.

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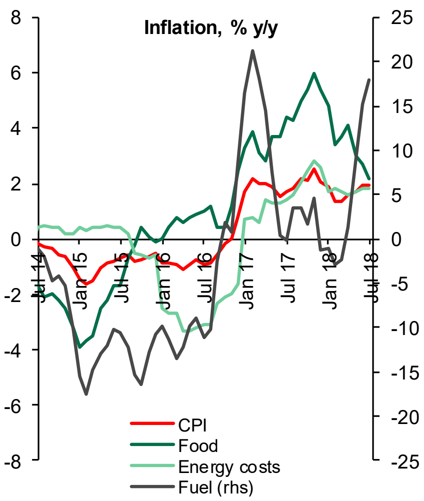

Inflation stable in July

CPI inflation in July was 2.0% y/y, in line with the flash estimate, and at the same level as in June. The breakdown of the data did not reveal any significant surprises. Food prices recorded a seasonal drop -0.7% m/m, similarly as prices of clothing and footwear (-3.5% m/m). On the other end of the spectrum were prices of fuels, which rose 0.7% m/m and prices of recreation (+1.8% m/m), driven up mainly by soaring costs of package holidays (+5.5% m/m). According to our estimates, the core inflation, excluding food and energy, remained unchanged in July at 0.6% y/y.

We think that June-July saw the local peak for the headline inflation and in the coming months CPI growth should gradually subside due to high base effects (mainly in food and fuels), towards 1.6% y/y in December. Meanwhile, the underlying inflation should be moving the opposite way – towards 1.2% y/y by year-end – as the cost pressures on companies are mounting.

GDP growth still above 5% y/y

GDP growth in 2Q18 reached 5.1% y/y, only a notch below the first quarter's 5.2%. The seasonally adjusted growth reached 0.9% q/q (in line with our forecast), vs 1.6% in 1Q18.

The breakdown of the economic growth in the second quarter is unknown yet, but we assume that the private consumption remained strong at c5% y/y, supported by healthy growth of households' income, while investment growth stayed near 8% y/y. The surprisingly high input to growth from inventory changes recorded in 1Q in our view almost disappeared in 2Q, to the benefit of investments and export growth. The contribution of net exports to GDP growth was probably almost neutral, after -1.2pp in 1Q.

We think that the pace of economic growth in Poland will decelerate slightly in 2H18, amid slowing expansion of investments (construction sector reaching its capacity limits) and a bit more negative contribution from net exports (strong import boosted by domestic demand, export slowly feeling the impact of global trade wars). Still, after much better than expected performance in the first year-half the average pace of GDP growth this year is likely to be even slightly above the last year's 4.6%.

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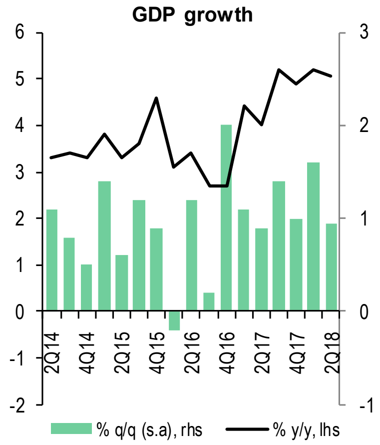

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