

Economic Comment

GDP beats expectations, CPI under control

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GDP growth surprised to the upside in 3Q18 and showed 5.1% y/y as compared to average expectations at 4.6% and highest market forecast at 4.9% y/y. The GDP growth remained above 5% for the fifth time in a row and this is the best streak since 2006-2008 economic boom. We expect that in the next quarters Polish GDP will decelerate, mainly owing to weakening trend in international trade. However 2018 full-year growth of GDP may start from a five.

The Final CPI reading for October was 1.8% y/y versus flash reading of 1.7% and September reading at 1.9%. Core inflation might have moved from 0.8% to 0.9%. A more visible rise of CPI and core inflation should come with the start of 2019. Today's data support the scenario of stable interest rates in Poland.

GDP growth above 5% y/y in 3Q18

GDP growth surprised to the upside in 3Q18 and showed 5.1% y/y as compared to average expectations at 4.6% and highest market forecast at 4.9% y/y. The GDP growth remained above 5% for the fifth time in a row and this is the best streak since 2006-2008 economic boom. In seasonally adjusted terms, GDP expanded by 1.7% q/q and 5.7% y/y, which are the best results since 2008/2009 (if we omit 2.0% q/q recorded in 4Q16).

We do not know the detailed growth breakdown, as the Stats Office is due to release it at the end of the month. In our view, consumption remained the main growth driver, supported by high wage growth, record-low unemployment and high consumer confidence. We expect investment to remain moderate. However, we cannot rule out a positive surprise, e.g. due to pre-election boom in local governments, which could have supported also public consumption. In our view, contribution of net exports was negative or neutral. September's foreign trade numbers confirm that Polish exports are decelerating. Let us note that the Stats Office often shows inventories as key growth contributor in the first release and then a clearer breakdown is shown in further revision. However, we would argue that high inventories would be justified this time given distortions in car sales due to introduction of new emission standards.

The Stats Office has revised earlier data, with upward revisions in all numbers between 3Q16 and 1Q18, which in our view may suggest some change in the estimation methodology.

We expect that in the next quarters Polish GDP will decelerate, mainly owing to weakening trend in international trade. We also anticipate slight deceleration of private consumption. However 2018 full-year GDP growth may start from a five, vs our estimated of 4.7% y/y ahead of today's release.

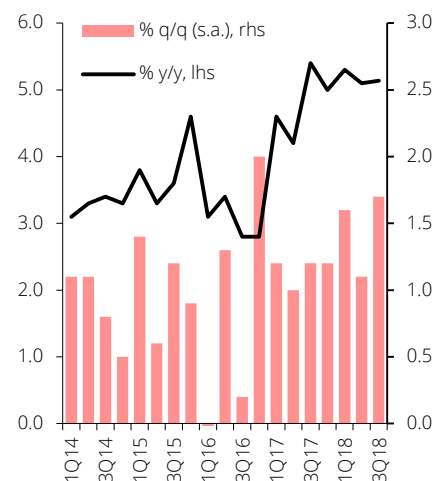
Inflation slightly higher than first estimate

The final CPI reading for October was 1.8% y/y versus flash reading of 1.7% and September reading at 1.9%. Services inflation remained unchanged at 1.5% y/y and goods inflation went to 1.8% y/y from 2.0% y/y. Our estimate of core inflation remained at 0.9% y/y versus 0.8% y/y in September, but in our view there is a higher probability that the measure actually stayed unchanged than we previously thought.

Detailed inflation data reflect weakness of inflation. Many categories that we expected to remain stable recorded price drops on monthly basis. This was neutralized by the second strong rise of clothing and footwear prices in a row (+3.9% m/m after +2.4% m/m in September). In the previous years we have not seen such high monthly rise of prices in this category as the one in October, even in years when the price increases at the introduction of the new collection occurred during one month, not two. This reflects in our view the strength of private consumption at the turn of the quarters.

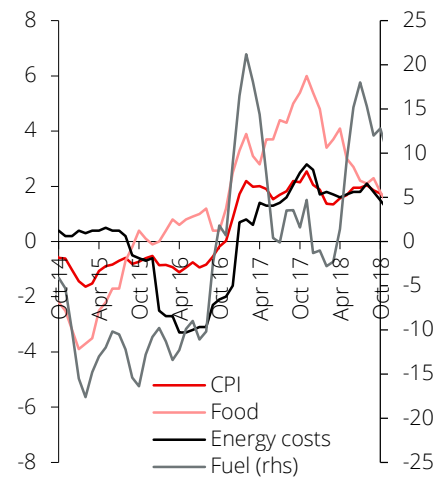
As regards food, prices of vegetables and bread continued to rise (+6.2% m/m and +1.8% m/m, respectively) which is linked to this year's drought. On the other hand, the high supply of fruits sent their prices down 3% m/m. We saw no rebound in prices of insurance and financial services – the categories that dragged core CPI down earlier this year.

GDP growth



Source: Stats Office, Santander Bank Polska

Inflation measures, % y/y



Source: Stats Office, Santander Bank Polska

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It is possible that the core inflation will not reach 1% seen in January before the year-end. However, in 2019 we should see a significant rebound. In our view, headline CPI might hold at or below the October level until the end of the year. In January 2019, CPI could jump above 2% and rise further above the 2.5% central bank target still in 1Q19.

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