

31 August 2021

# Economic Comment

## GDP and CPI above forecasts again

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CPI inflation rose to 5.4% y/y in August, according to flash data, boosted by higher food prices as well as higher core inflation. We expect that in the next two quarters inflation rate will remain near 5% and it may even approach 6% for a moment. GDP growth accelerated to a record 11.1% y/y in 2Q21 (the highest reading in history). Such a high print partially resulted from the low base effect, but also from the solid rebound of the domestic demand, mainly consumption and inventories. Investments clearly disappointed after strongly increasing in 1Q21, however we expect investments to re-accelerate over the coming quarters. We still predict the 2021 GDP growth at 5%. The accelerating economic growth (fueled mainly by consumption) and accelerating inflation increase the probability of monetary policy normalization start in November. The factor which potentially could delay the decision to begin the hiking cycle is the evolution of Covid-19 pandemic in the coming months.

### CPI inflation climbing further up

CPI Inflation climbed in August to 5.4% y/y, exceeding expectations (market and us: 5.1% y/y). The upward surprise versus our forecasts stemmed mainly from food prices, which fell only by 0.3% m/m (highest August print since 2006) and from core inflation, which climbed to 3.9-4.0% y/y from 3.7% y/y in July, according to our estimates. CPI was also pushed higher by prices of natural gas and water, but this was reflected in our forecasts. CPI is likely to remain above 5% at least in the upcoming two quarters (it may even approach 6% in 1Q22) and it seems that our above-the-market call for average CPI above 4% in 2022 will become a consensus view soon (current Bloomberg consensus: 3.5%, July NBP forecast: 3.3%).

It is becoming increasingly clear that the MPC is behind the curve with rate hikes and probability of the start of policy tightening in November is rising, in our view. July's NBP forecasts are already outdated: the central bank was expecting CPI inflation at 4.6% in 3Q21 and it is very probable (we do not know September data yet) that it will exceed 5%. The development of the pandemic remains the main uncertainty, as Mr. Glapiński pointed that the MPC must be certain it will not derail the economic growth before it considers rate hikes. Also, please recall that according to Adam Glapiński the asset purchases programme should end with rate hikes at the latest.

### GDP growth lifted mainly by consumption

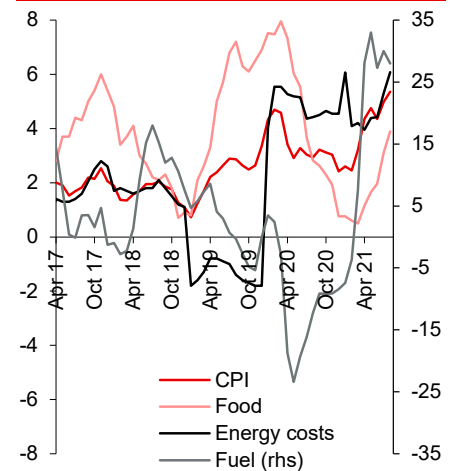
Polish GDP growth in 2Q21 reached 11.1% y/y (revised up slightly from the flash 10.9%) and 2.1% q/q s.a. (revised up from 1.9%).

The private consumption rose 13.3% y/y (2.7% q/q s.a.), more or less in line with our forecast. It confirms the widely anticipated rebound in households' spending after the pandemic restrictions were lifted. The positive trend in consumer spending should be maintained, thanks to quickly improving labour market situation and quickly rising households' income. We think that worries about the next wave of pandemic should not derail consumption growth, just as they did not affect consumers' behaviour too much in the spring.

Fixed investments were up 5% y/y, which we see as a disappointment (our forecast +15% y/y). Seasonally adjusted investments fell by 10.8% q/q, reversing nearly all the rebound recorded in 1Q21. Possibly, it reflects the weakness of public investments (investment in local governments fell by 11.8% y/y in current prices in 2Q21), as the activity in the private sector apparently continued reviving: earlier data showed investments in big companies up +11% y/y in 2Q21. We think that public investments will re-accelerate over time, especially after the National Development Programme is launched next year.

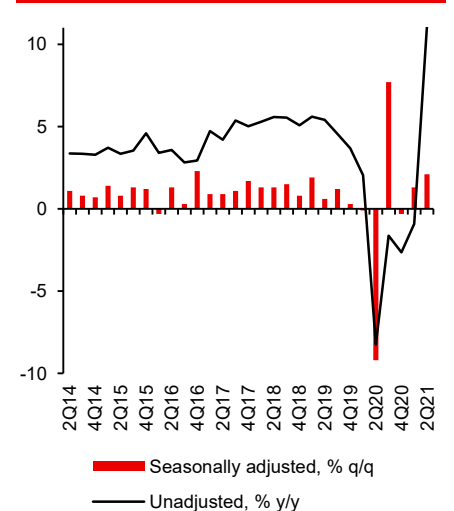
Net exports' contribution to GDP was -0.7pp, less negative than we had assumed relying on the foreign trade data. In turn, change of inventories added as much as 2.9pp to GDP growth, more than we had expected. It is possible that the large increase

CPI inflation, % y/y



Source: GUS, Santander

GDP growth, %



Source: GUS, Santander

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of inventories partly represents data errors and misclassification and part of this growth could be attributed to different categories (investments, for example) after later data revisions.

In general the GDP data for 2Q21 confirm a significant recovery of the domestic economy after restrictions were lifted. The upward momentum was mostly generated by consumer demand. Seasonally-adjusted GDP in 2Q21 was already above the pre-pandemic level (0.7% above 4Q19), thus Poland is a top ranking EU economy as regards the pace of economic recovery after 2020 recession. We stick to our forecast of GDP growth at 5% in 2021.

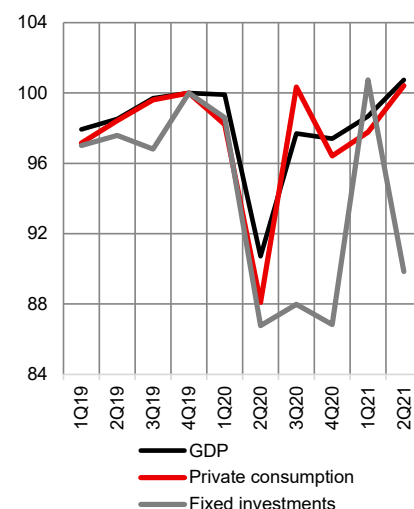
#### GDP growth and its components (% y/y)

	2019	2020	2Q20	3Q20	4Q20	1Q21	2Q21
GDP	4.7	-2.7	-8.3	-1.7	-2.7	-0.9	11.1
Domestic demand	3.6	-3.7	-9.5	-3.2	-2.9	1.0	12.8
Total consumption	4.5	-1.3	-7.5	0.9	-0.2	0.6	10.7
Private consumption	4.0	-3.0	-10.8	0.4	-3.2	0.2	13.3
Public consumption	6.5	4.4	3.4	3.0	7.7	2.5	3.8
Gross accumulation	0.3	-12.9	-17.6	-20.0	-10.4	3.4	22.2
Fixed investment	6.1	-9.6	-9.8	-8.2	-15.4	1.3	5.0
Stock building *	-1.0	-0.8	-1.8	-2.4	1.3	0.3	2.9
Net export *	1.3	0.8	0.8	1.4	0.1	-1.9	-0.7

\* contribution to GDP growth (percentage points)

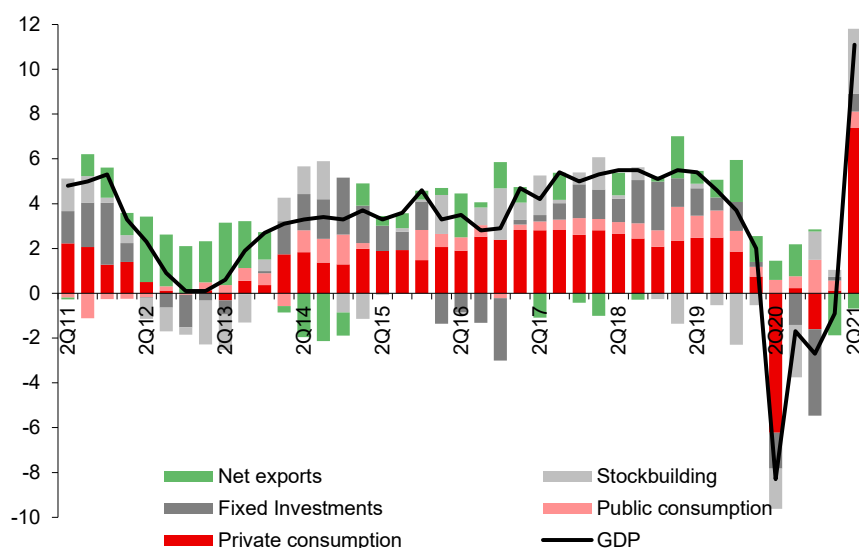
Source: GUS, Santander

#### GDP, consumption and investment levels, 4Q19=100, s.a.



Source: GUS, Santander

#### GDP growth breakdown, demand side (% y/y)



Source: GUS, Santander

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