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Economic Comment

CPI no longer evades forecasts, but PMI does

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June CPI climbed to 15.6% y/y from 13.9%, roughly in line with expectations. We estimate core inflation at 9.3-9.4% y/y. We think that CPI inflation is close to its peak, but much depends on how GUS treats the new price policies about fuel and coal. Meanwhile, core inflation is likely to climb further. The June CPI reading supports a rate hike by 75bp in July, in our view. The rate hike may be delivered in spite of the poor PMI print (a drop much below forecasts). The indicator is suggesting a very strong downturn in the economic activity and we are indeed expecting the economic growth to slow down strongly in 2H22

CPI close to the peak

June CPI climbed to 15.6% y/y from 13.9% in May, roughly in line with expectations (we and market: 15.5%). Again all main components, showed in the flash release, contributed to higher CPI. Fuel prices rose by 9.4% m/m and added 0.7pp to the annual headline, energy prices rose by 3.0% m/m and added 0.4pp, core inflation (according to our estimate based on today's data) climbed to 9.3-9.4% y/y (new record), while food prices advanced by 0.7% m/m.

We think that the CPI is close to its peak. We were expecting the peak to be reached in August, just below 16% y/y, but the upcoming months will be under impact of new price policies (discounts on fuel stations, government proposal to lower coal price), which adds uncertainty to the CPI forecast, as we are not sure how the stats office will incorporate it in the inflation data. It cannot be ruled out that these temporary promotions will trim CPI and if this is the case, the peak could be already in July near 15.7%.

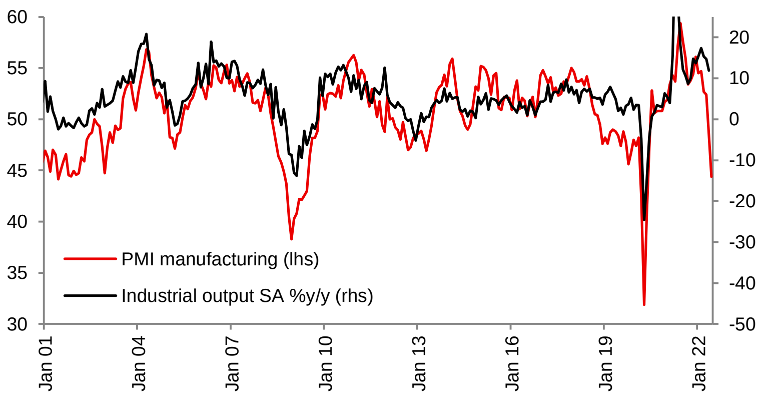
Meanwhile, core inflation is likely to climb further and even rich 10% at the year-end. The m/m core CPI growth most likely went down to 0.8-0.9% from 1.0% m/m seen in the previous months, but in our view this should not be read as a decline of the inflationary pressure.

The June CPI reading supports a rate hike by 75bp in July, in our view. The rate hike may be delivered in spite of the poor PMI print.

PMI signals a significant slowdown

PMI slumped to 44.4pts in June from 48.5pts in May, and markedly below forecasts (market: 48.0pts, Santander: 47.0pts – the lowest forecast in the pool collected by Bloomberg). In the previous month the index also escaped much below forecasts and its decline was also at c.4pts. The index fell to the lowest level in two years..

Polish manufacturing PMI vs. actual industrial output

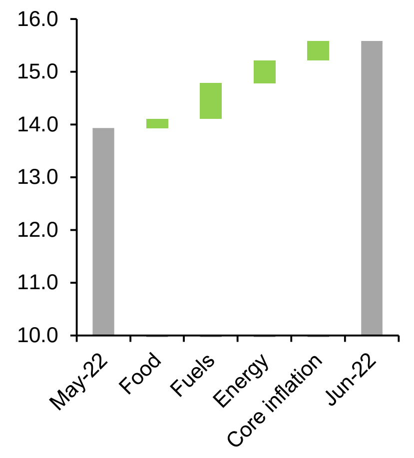


Source: GUS, Markit, Santander

New orders and output were the main culprits behind this decline, registering almost the largest drop in the survey's history, following only 2020 Covid-related declines.

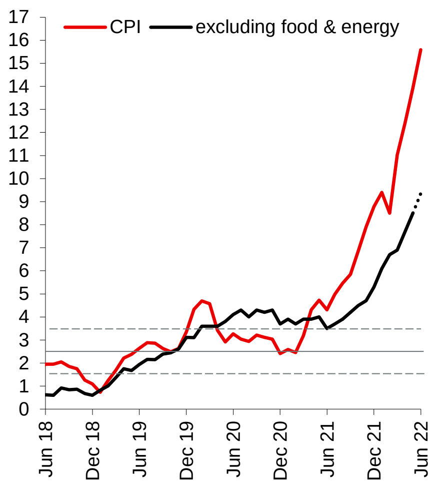
Also the employment component declined – this is an important change. The previous PMI report only mentioned some reservations of businesses when it comes to

Polish CPI inflation change, %y/y



Source: GUS, Santander

CPi inflation in Poland, % y/y



Source: GUS, NBP, Santander

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replacing the leaving employees, while the reports from Dec'21 to Apr'22 all still indicated employment growth. Input costs continued to increase sharply.

This PMI indicator is suggesting a very strong downturn in the economic activity and we are indeed expecting the economic growth to slow down strongly in 2H22 when it comes to the y/y growth. In q/q SA terms we see a risk that already in Q2 the GDP growth could turn negative.

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