Poland: PMI at critical level and core inflation disappoints, again

If we are to trust the PMI, industrial production should slow sharply in the fourth quarter to about 2-3% year-on-year, around half the 6.4% average of the first half of the year. Meanwhile, inflation continues to decelerate.

- PMI close to 50 threshold
- Another disappointment from core inflation
- MPC reaction: no change in dovish bias

PMI close to 50 threshold
The PMI manufacturing index fell from 51.4 to 50.5 in September, following a softer reading in the eurozone and German indexes. A deceleration occurred in all major components with new orders falling below the key 50-point threshold. What’s more, managers' forecasts for production in the coming months also worsened.

The deterioration in momentum has been visible in nearly all Polish sentiment surveys (e.g. European Commission indicators, NBP survey). Among trading partners, only Germany has seen signs of optimism, with the Ifo survey showing an improvement in expectations.

If we are to trust the PMI, industrial production (IP seasonally adjusted) should slow sharply in the fourth quarter to about 2-3% year-on-year, around half the 6.4% YoY average of the first half of the year. Production should maintain decent momentum of close to 5% YoY seasonally adjusted in September but we expect a slowdown to be seen in 4Q18 figures.

Another disappointment from core inflation
According to the flash estimate, CPI decelerated in September from 2% to 1.8% YoY, below the market consensus (1.9%) and in line with our forecasts. The negative surprise was due to another disappointment in core inflation. Based on available data, we estimate a 0.1 percentage point drop to 0.8% YoY vs. expectations close to 0.9-1%. On the other hand, food prices rose 2.3% YoY, likely due to higher prices for vegetables and cereal products.

We expect the deceleration in annual inflation to continue in the coming months. The October reading should remain close to the September estimate, as the recent increase in oil prices should boost the contribution from fuel. A bigger drop should occur in November – when we expect food prices to reach a nadir. With oil prices remaining at $80 per barrel, we think the CPI will bottom out at close to 1.5% YoY in November.
The slowdown in 4Q18 is likely to be temporary though. A return above 2% YoY should occur in 1Q19 (to 2.5-2.7% YoY) supported by the regulatory increase of electrical energy tariffs, and as effects which previously held down core inflation in 2018 (e.g. a fall in financial and insurance services prices) are exhausted. The trajectory of oil prices is a wild card but with Brent prices staying close to $80 per barrel, we think CPI will reach a peak in mid-2019 at close to 3% YoY, before moderating back to 2% YoY in the second half.

**MPC reaction: no change in dovish bias**

The big picture coming from today’s data is that we’ll see inflation temporarily moderate in 2H18 before peaking at 3% in mid-2019 (still below upper bound of target) with core inflation remaining very subdued. Additionally, if we trust the PMI, industrial production should slow very sharply in 4Q18, meaning GDP growth should decelerate as well. This should keep the central bank on its dovish course. We don’t expect a rate increase next year or the year after.

Some MPC members have signalled that they no longer subscribe to Governor Adam Glapinski’s view that rates should stay flat until 2020 due to new inflation risks (e.g. higher prices of oil and electric energy and wage pressures in the public sector before elections). But we still think this is an opinion of the minority.

---

Rafal Benecki  
Chief Economist, Poland  
+48 22 820 4696  
rafal.benecki@ingbank.pl

Jakub Rybacki  
Economist, Poland  
+48 22 820 4608  
Jakub.Rybacki@ingbank.pl
Disclaimer
This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group NV and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. The producing legal entity ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is subject to limited regulation by the Financial Conduct Authority (FCA). ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.