

Poland: A 'Goldilocks' economy with no hikes in the pipeline

Activity in 3Q remained robust, as GDP expanded by 5.1%YoY, but CPI slowed due to supply side shocks. A 'Goldilocks' economy suggests no interest rate hikes, today's data strongly trimmed rate hike expectations.



Source: Flickr

Polish GDP: The details

The second GDP reading confirmed robust 5.1%YoY dynamics in 3Q vs a similar figure of 5.1%YoY in 2Q18. The private consumption moderated a little (from 4.9% to 4.5%YoY), while investments recovered from 4.7% to 9.9%YoY (the slide in 2Q was caused by the negative impact of defence spending in our view). The 3Q reading showed strong public infrastructural outlays (prior to the regional elections) and a surge in expenses of larger companies.

On the other hand, the contribution of net exports was strongly negative (-0.9pp). The weaker balance reflects diminishing export orders. While problems of some sectors could be temporary (e.g. automotive with emission certification), the slowdown of Eurozone economies and global trade more generally is increasingly concerning for CEE and Polish manufacturing economies.

Given that, we expect 4Q GDP to moderate to 4.6%YoY and to slow further to 3.5 to 3.7%YoY in 2019. From a value-added perspective, a major deterioration should occur in the industrial sector. Despite strong activity in October, quarterly production should decelerate in 4Q from 6.1% to 3 to 4%YoY. Consumer sentiment surveys and stable wage dynamics suggest weaker retail trade activity as well. Finally, a worsening of global sentiment is already translating into lower investment plans in the private sector.

CPI: Inflation is decelerating

According to a flash reading, CPI decelerated from 1.8% to 1.2%YoY, strongly below the market consensus of 1.6%; we expected 1.4%YoY. Based on available data we estimate a drop of core inflation from 0.9% to 0.7%YoY. Food prices decelerated as well (from 1.8 to 0.7%YoY), subtracting 0.3pp from the headline. Finally, there were likely no increases as far as heating is concerned.

CPI is expected to fall further below 1%YoY in December, driven by lower fuel prices for private transportation. Do note that the energy regulator will present a new tariff for retail consumers but higher costs are likely to be offset by the government subsidy for households (effectively lowering the CPI path by 0.2pp compared with our previous estimates). Hence, we expect CPI to rebound in 1Q19 but stay below NBP target even for the whole 1Q.

However, CPI should reaccelerate in the second quarter. We expect higher electrical costs for the enterprise sector to increase the headline figure by 0.3-0.4pp. Still, given (the pre-election) rebates from the government to energy consumers (i.e. households and the energy-intensive sector) the inflation peak in the summer of 2019 is unlikely to significantly exceed 2.5%YoY. Annual dynamics should be much lower compared with the latest NBP projections.

MPC implications:

Both the negative activity outlook and the low CPI reading cooled hike expectations - presently markets anticipate a 30bp rate increase over the next two years, down from 70bp in early November. That supports our long-standing call for no hikes in this cycle. The National Bank of Poland governor, Adam Glapinski, should stick to his forward guidance (no rate change in 2019 and a move likely in 2020).

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