When will households' investments accelerate?

This week

- **The most important event this week will be the release of data from the US labour market scheduled for Friday.** We expect non-farm payrolls to have increased by 195k in February vs. 227k in January, with unemployment rate down to 4.7% from 4.8% in January. Before the Friday's reading, some additional information on the labour market will be provided by the ADP report on private sector employment (the market expects an increase of 190k in February vs. 246k in January). The labour market reading will support our revised scenario of the US monetary policy assuming a 25bp interest rate hike in March (see below) and will be conducive to a weakening of PLN and increase in yields on Polish bonds.
- **The ECB meeting will be held on Thursday.** In our view, it will not bring any changes in the monetary policy in the Eurozone. Questions about further shape of the ECB monetary policy in the context of inflation in the Eurozone reaching the target (see below) may be asked during the conference. The latest macroeconomic projection will also be presented at the conference after the meeting. We expect that the inflation path will be revised upwards as compared to the December projection. During the conference after the ECB meeting, PLN and prices of the Polish debt may show increased volatility.
- **Data on the Chinese trade balance will be released on Wednesday.** We expect its surplus to have dropped to USD 34.0bn in February vs. USD 51.3bn in January. We forecast that export dynamics recorded an increase to 15.2% YoY in February vs. 7.9% in January, while import dynamics rose to 19.0% from 16.7%. The release of data from China will be neutral for the markets, we believe.
- **The meeting of the Monetary Policy Council will be held on Wednesday.** We expect that the MPC will decide to leave interest rates unchanged. We believe that, like the month before, the NBP Governor, A. Glapiński, will indicate that the coming quarters will see a gradual weakening of the inflation impulse and consequently, the risk of inflation target being permanently exceeded in medium term is low. He is likely to repeat his stance that the "wait-and-see" approach is now the best way of conducting monetary policy. The results of the latest NBP inflation projection will be presented after the meeting, confirming that the current increase in inflation is temporary. We expect that the inflation path will be revised upwards compared to the November projection, while the economic growth rate forecast may be slightly lowered. We believe that the press release after the Council meeting, projection results, and NBP Governor's remarks during the press conference will not have a substantial impact on PLN or yields on Polish bonds.

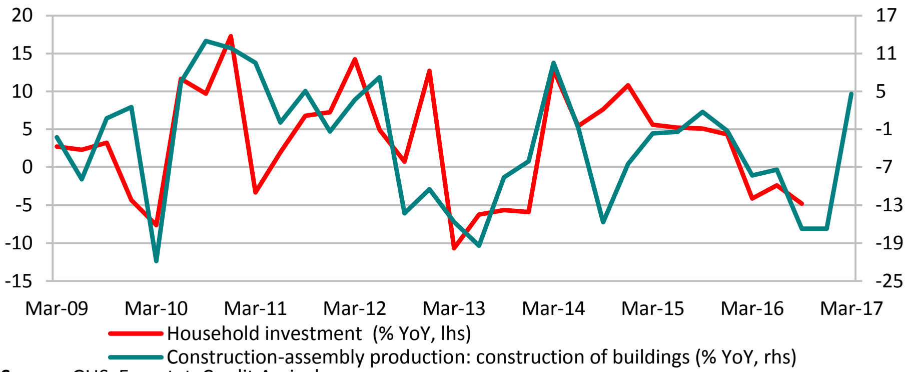
Last week

- **The most important event last week was the speech the FED chair, J. Yellen delivered on Friday evening.** She said that should FED members at the March meeting find employment and inflation in the US to continue to evolve in line with their expectations, a further adjustment of the federal funds rate would likely be appropriate. We believe that the data coming from the US economy are consistent with FED expectations. Consequently, we have revised our scenario of US interest rates. We now assume that the next interest rate hike (by 25bp) will take place in March (before we expected it in June). Our scenario, assuming interest rate hike in March, is in line with market expectations (futures contracts indicate 80% probability of such FED decision). We expect subsequent hike of interest rates in the US (by 25bp) in September. However, its date is highly uncertain, as it may be largely affected by the still unknown shape of the future economic policy of D. Trump's administration. The scale of the monetary tightening we expect this year (50 bp) and in 2018 (100 bp) has not changed. We believe that the fiscal easing aimed at increasing economic growth promised by D. Trump in his election campaign will take place no sooner than in 2018. Our view is confirmed by D. Trump's last week's address to the Congress, which have not brought any new substantial information about contemplated reforms, thus signaling a delay in their implementation. We will present the prospects of monetary policy in US In greater detail in the next MACROmap.

- **Numerous data from the US economy and business survey results were released last week.** According to the second estimate, the annualized GDP growth rate in Q4 2016 has not changed compared to the first estimate and amounted to 1.9%. On the other hand, the growth structure was revised. The contribution of private consumption was revised upwards (2.05 pp in the second estimate vs. 1.70 pp in the first estimate). In turn, lowered compared to the first estimate were the contributions of investments (0.51 pp vs. 0.67 pp), public consumption (0.06 pp vs. 0.21 pp), and inventories (0.94 pp vs. 1.00 pp). The contribution of net experts has not changed compared to the first estimate and amounted to -1.70 pp. Thus, private consumption continued to be the main driver of the US GDP growth in Q4. Preliminary data on durable goods orders were also released last week and rose by 1.8% MoM in January vs. a 0.8% decline in December. The main reason for the sharp increase in the monthly orders growth was higher growth rate of orders for non-military aircrafts and their parts. Excluding means of transport, durable goods orders decreased by 0.2% in January vs. a 0.9% increase in December. Especially noteworthy in the data structure is an increase in orders for non-military capital goods, excluding orders for aircrafts (0.5% YoY in January vs. 3.3% in December), being a leading indicator for future investments, which rose for a second month in a row. The results of US business surveys were also released last week. Improved consumer sentiment was indicated by the Conference Board Index, which rose to 114.8 pts in February vs. 111.6 pts in January, hitting the highest level since July 2001. Conducive to the index increase were higher values of its sub-indices for both the assessment of the current situation and expectations. The manufacturing ISM also recorded an increase and rose to 57.7 pts in February vs. 56.0 pts in January, hitting the highest level since August 2014. Conducive to the index increase were higher values of four of its five sub-indices (for new orders, production, supplier delivery times, stocks of goods purchased). Lower contribution of the sub-index for employment had an opposite impact. Non-manufacturing ISM also increased and amounted to 57.6 pts in February vs. 56.5 pts in January. The index increase was due to higher values of three of its four sub-indices (for business activity, new orders, and employment). Lower contribution of the sub-index for supplier delivery times had an opposite impact. The last week's data from the US economy do not alter our forecast, in which the annualized GDP growth rate in the US will amount to 2.0% in Q1 2017.
- **According to the flash estimate, inflation in the Eurozone rose to 2.0% YoY in February vs. 1.8% in January.** Conducive to the increase in inflation were higher dynamics of food and energy prices, which increased inflation by 0.1 pp. Thus, the inflation growth rate in the Eurozone exceeded the inflation target in February (close to but below 2.0% YoY). However, during the press conference after the January meeting, the ECB Governor, M. Draghi, indicated that the sharp increase in inflation in the Eurozone did not signal a significant increase in inflationary pressure, as core inflation remained at a low level. Thus, the temporary overshooting of the inflation target in February (resulting from higher commodity prices) does not change our scenario of the Eurozone monetary policy. We assume that the ECB will extend the program until March 2018 to then taper it gradually until its termination in December 2018.
- **Polish manufacturing PMI dropped to 54.2 pts in February from 54.8 pts in January**. The index decrease resulted from lower contributions of three of its five sub-indices (for output, new orders, and stocks of purchases). Especially noteworthy in the data structure is the sustained fast increase in foreign demand. In our view, it results from the growing recovery in global trade. Thus, the results of business surveys in Polish manufacturing in February support our scenario, in which subsequent quarters will see acceleration in Polish exports (see MACROmap of 6/2/2017) and their dynamics in H2 2017 will reach a two-digit level.

- **According to the final estimate, GDP in Poland rose by 2.7% YoY in Q4 2016 vs. a 2.5% increase in Q3.** Conducive to higher GDP growth were higher contributions of net exports (0.3 pp in Q4 vs. -0.3 pp in Q3) and inventories (1.4 pp vs. 1.1 pp). Lower contributions of public consumption (0.5 pp vs. 0.8 pp), private consumption (2.1 pp vs. 2.3 pp), and investments (-1.6 pp vs. -1.4 pp) had an opposite impact. Thus, private consumption was the main source of growth in Q4. The GDP data are in line with our scenario, in which the slowdown of economic growth ended in Q4 2016. We expect that GDP growth will be within an upward trend in subsequent quarters of 2017 reaching 4.1% YoY in Q4 2017.
- **China Caixin manufacturing PMI rose to 51.7 pts in February vs. 51.0 pts in January**. The index increase resulted from higher contributions of four of its five sub-indices (for output, new orders, employment, and stocks of goods purchased). Lower sub-index concerning supplier delivery times had an opposite impact. The Chinese manufacturing PMI according to CFLP also recorded an increase and amounted to 51.6 pts in February vs. 51.3 pts in January. Especially noteworthy in the Caixin PMI structure is the new export orders sub-index, which in the last two months has run above the sub-index for total new orders. This shows that external demand for Chinese products is growing faster than the domestic demand, which supports our scenario of recovery in global trade.

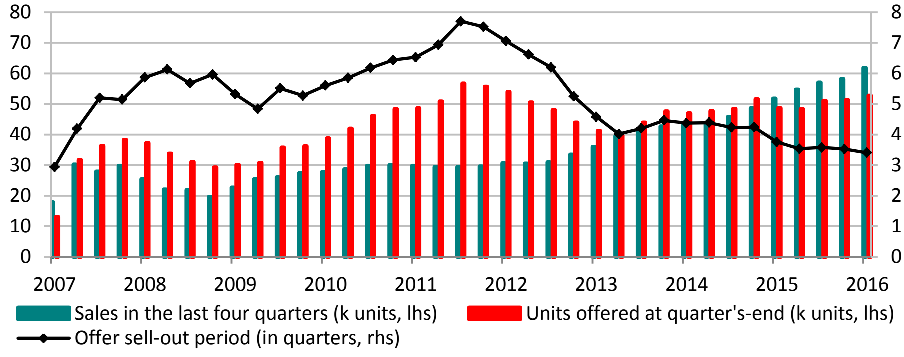
When will households' investments accelerate?



Source: GUS, Eurostat, Credit Agricole

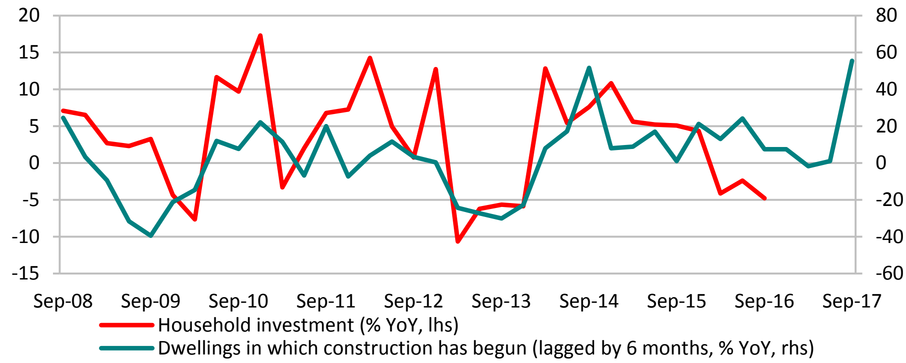
In addition to a decrease in public and corporate investments (see MACROmap of 6/2/2017), last year also recorded lower outlays on fixed assets allocated by households. According to Eurostat data, they dropped in nominal terms by 3.8% between Q1 and Q3 2016 compared to the same period in 2015, which was conducive to a decrease in total investments growth by 0.9 pp. Households' outlays on fixed assets are mainly the expenditures on purchases of real estate. GUS estimates this expenditure i.a. based on the value of the construction costs incurred in the same period by investors building residential properties for sale. In effect, the dynamics of households' gross outlays on fixed assets show considerable correlation with the growth rate of the construction-assembly production in the category "construction of buildings" (see the chart). The production growth in this segment has not changed in Q4 2016 compared to Q3 and amounted to -16.7% YoY and rose to 4.6% YoY in January 2017. Taking into consideration GUS's methodology, presented above, we believe that households' investments dynamics reached the local minimum at the turn of 2016 and 2017. To assess the outlook for households' investments in subsequent quarters, we should analyze the trends on residential construction.

When will households’ investments accelerate?



Source: REAS

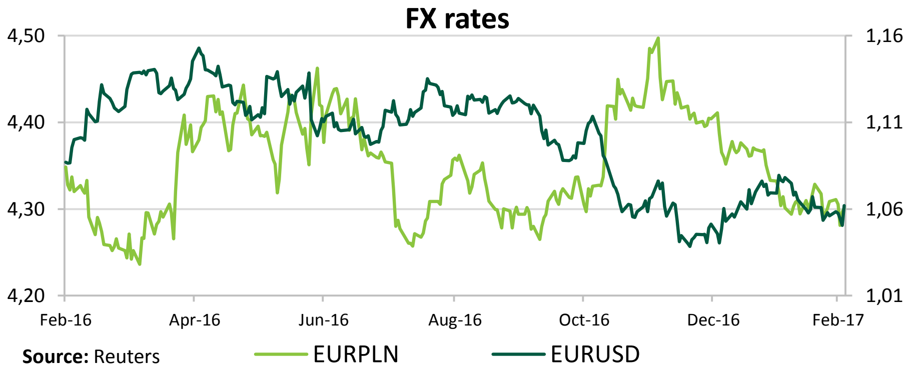
According to REAS, the number of dwelling sale transactions for six markets (Warsaw, Cracow, Wroclaw, Gdansk-Gdynia-Sopot, Poznan, and Lodz) totaled ca. 62k units in 2016 and was higher by 20% from the so-far record year of 2015 in terms of closed deals. The main reason for high sales of new dwellings in these cities is the investment demand – some wealthier Poles allocated free resources for purchase of property for rent. According to NBP calculations, the profitability of flat rental is currently many times higher than the profitability of bank deposits and treasury bonds. NBP estimates that cash purchases of dwellings in the said six cities represented ca. 60-65% of all deals between Q1 and Q3 2016. Considering the growing improvement in the labour market and disbursements under the Family 500+ scheme, increasing households’ disposable income, as well as sharp increase in inflation in recent months, limiting real return on bank deposits, we believe that investment demand in the coming quarters may intensify. Conducive to improvement in residential construction and revival of growth in households’ investments in 2017 were also home purchases financed by credits with subsidies under the “Mieszkanie dla Młodych” program. As at the end of January, agreements on subsidies amounting to PLN 712.3M (95.5% of the limit on funds for 2017) were signed. Residential construction will also be supported by the launch of projects under “Mieszkanie+” program. However, this program will be largely neutral for households’ investments in short term, as it envisages construction of flats for rent with tenants gradually gaining ownership. According to REAS calculations, assuming last year’s sales rate, the time needed to sell the dwellings currently on offer is now ca. 3.4 quarters (the shortest since 2007). We believe that high demand on the housing market compared to available dwellings will make developers increase the number of units they build which will positively affect the dynamics of households’ investments in national accounts statistics.



Source: Eurostat, GUS, Credit Agricole

The recovery in households’ investments we forecast in the horizon of several months is already partly visible in the data on dwellings in which construction has begun, as in January 2017 they rose by 55.6% YoY vs. 1.0% in Q4 2016. Historically, data on dwellings in which construction has begun (leading by ca. 6 months) signaled changes in the dynamics of households’ outlays on fixed assets. Considering the large scale of this indicator increase and its leading nature, as well as the demand and supply factors outlined above, we expect that the dynamics of households’ investments this year will significantly increase compared to 2016. Consequently, we forecast that the dynamics of total investments will increase to 5.3% YoY in 2017 vs. -5.5% YoY in 2016 and, in effect, the economic growth rate in annual terms will clearly accelerate in 2017 to exceed 4.0% in Q4.

Data from US labour market may weaken PLN

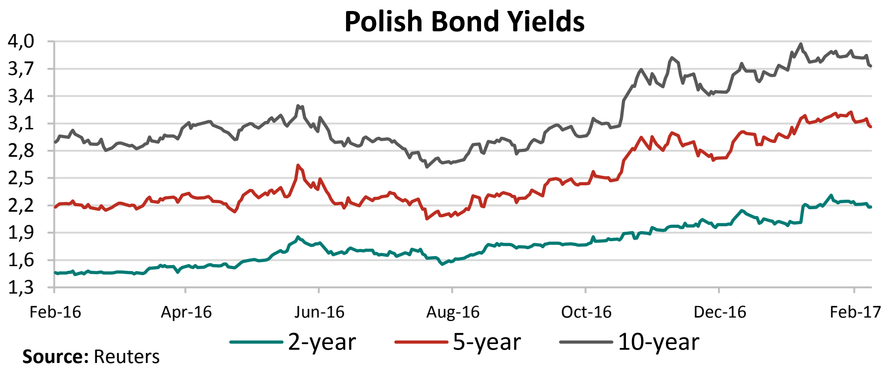


Source: Reuters

Last week EURPLN rate dropped to 4.3011 (PLN strengthening by 0.2%). On Monday and Tuesday, PLN was stable and oscillated around 4.31 against EUR. The stabilization of PLN was supported by readings from the US that were close to the market expectations (second estimate of GDP in Q4, preliminary data on durable goods orders). On Wednesday PLN opened stronger than it closed on Tuesday and was appreciating throughout the day. Conducive to PLN strengthening was lack of new information in D. Trump's address to the Congress on Tuesday evening. PLN appreciation was also supported by the results of business surveys in China pointing to higher activity in Chinese manufacturing. Thursday saw a correction and PLN weakening supported by higher-than-expected inflation in the Eurozone. On Friday, PLN showed increased volatility in anticipation of J. Yellen's address in the evening.

At the beginning of this week, PLN may depreciate in reaction to last week's hawkish address of the FED chair, J. Yellen, which strengthened market expectations of continued tightening of the US monetary policy at the March FOMC meeting. Important for PLN will also be the Friday's data on non-farm payrolls in the US which, if our forecast materializes, will be negative for PLN. In our view, the press conference after the MPC meeting, scheduled for Wednesday, will be neutral for PLN and the Thursday's conference after the ECB meeting may contribute to increased volatility of PLN. The reading of the balance on trade in China, scheduled for Wednesday, will not ne market moving, we believe.

Last week's address by J. Yellen negative for prices of Polish debt



Source: Reuters

Last week the yield of Polish 2-year benchmark bonds dropped to a level of 2.18 (down by 3 bp), of 5-year bonds to a level of 3.062 (down by 5 bp), and of 10-year bonds to a level of 3.732 (down by 9 bp). Monday through Thursday, the prices of the Polish debt were stable. The Tuesday's address by D. Trump to the Congress was neutral for the debt market. On Thursday there was a switching auction, at which the Ministry of Finance sold PLN 5.24bn of 2-, 5-, 9-, and 10-year bonds with demand equaling PLN 9.16bn by redeeming bonds maturing in 2017. The auction contributed to a decrease in yields on Polish bonds visible at the center and at the long end of the curve. On Friday, the prices of the Polish debt were stable.

The last week's hawkish address of J. Yellen took place after the closing of the Polish market. Consequently, its negative impact on the prices of Polish bonds will materialize no sooner than at the beginning of this week. Probably negative for the prices of the Polish debt will also be the release of data on non-farm payrolls in the US, scheduled for Friday. We believe that the Wednesday's conference after the MPC meeting will be neutral for the debt market. During the press conference after the press conference after the ECB meeting, scheduled for Thursday, we may expect increased volatility of the prices of Polish bonds.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
NBP reference rate (%)	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	**1,50**
EURPLN*	4,35	4,24	4,37	4,38	4,38	4,35	4,36	4,29	4,31	4,45	4,40	4,32	4,31	**4,35**
USDPLN*	4,00	3,73	3,81	3,94	3,94	3,90	3,91	3,82	3,92	4,20	4,18	4,00	4,07	**4,14**
CHFPLN*	4,00	3,87	3,97	3,96	4,04	4,02	3,97	3,93	3,96	4,13	4,11	4,04	4,05	**4,07**
CPI inflation (% YoY)	-0,8	-0,9	-1,1	-0,9	-0,8	-0,9	-0,8	-0,5	-0,2	0,0	0,8	1,8	**2,1**	
Core inflation (% YoY)	-0,1	-0,2	-0,4	-0,4	-0,2	-0,4	-0,4	-0,4	-0,2	-0,1	0,0	0,2	**0,3**	
Industrial production (% YoY)	6,8	0,7	5,9	3,2	6,0	-3,4	7,5	3,2	-1,3	3,2	2,2	9,0	**1,7**	
PPI inflation (% YoY)	-1,5	-1,9	-1,2	-0,4	-0,8	-0,5	-0,1	0,2	0,6	1,8	3,2	4,1	**4,5**	
Retail sales (% YoY)	3,9	0,8	3,2	2,2	4,6	2,0	5,6	4,8	3,7	6,6	6,4	11,4	**8,5**	
Corporate sector wages (% YoY)	3,9	3,3	4,6	4,1	5,3	4,8	4,7	3,9	3,6	4,0	2,7	4,3	**4,1**	
Employment (% YoY)	2,5	2,7	2,8	2,8	3,1	3,2	3,1	3,2	3,1	3,1	3,1	4,5	**4,5**	
Unemployment rate* (%)	10,2	9,9	9,4	9,1	8,7	8,5	8,4	8,3	8,2	8,2	8,3	8,6	**8,6**	
Current account (M EUR)	-652	-217	691	1392	-723	-993	-739	-445	-531	-188	-533	**332**		
Exports (% YoY EUR)	5,4	0,0	4,0	1,4	6,0	-5,2	9,2	2,7	-2,3	4,7	6,7	**15,0**		
Imports (% YoY EUR)	7,4	0,9	0,0	2,5	0,8	-6,9	10,8	3,1	2,1	6,2	9,0	**15,2**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2016				2017				2016	2017	2018
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)		3,0	3,1	2,5	2,7	2,8	2,5	3,3	4,1	2,8	3,3	3,2
Private consumption (% YoY)		3,2	3,3	3,9	4,2	3,6	3,6	2,9	2,8	3,6	3,2	2,9
Gross fixed capital formation (% YoY)		-2,2	-5,0	-7,7	-5,8	0,0	1,6	6,8	8,7	-5,5	5,3	10,0
Export - constant prices (% YoY)		6,7	11,4	6,8	8,6	8,8	9,2	12,1	12,5	8,4	10,2	7,3
Import - constant prices (% YoY)		8,7	10,0	7,8	8,5	8,9	10,7	13,0	13,1	8,7	11,2	9,0
GDP growth contributions	Private consumption (pp)	2,0	1,9	2,3	2,1	2,3	2,1	1,7	1,4	2,1	1,9	1,7
	Investments (pp)	-0,3	-0,9	-1,4	-1,6	0,0	0,3	1,2	2,2	-1,1	1,0	1,8
	Net exports (pp)	-0,7	1,0	-0,3	0,3	-0,3	-0,2	-0,1	0,2	0,1	-0,1	-0,6
Current account***		-0,8	-0,5	-0,5	-0,5	-0,9	-1,0	-1,1	-1,0	-0,5	-1,0	-1,5
Unemployment rate (%)**		9,9	8,7	8,3	8,3	8,8	7,9	7,8	8,1	8,3	8,1	8,1
Non-agricultural employment (% YoY)		2,2	2,3	1,5	1,5	0,6	0,4	0,2	0,1	1,9	0,3	0,0
Wages in national economy (% YoY)		3,1	4,3	4,1	3,7	4,1	4,4	4,6	4,8	3,8	4,5	4,8
CPI Inflation (% YoY)*		-0,9	-0,9	-0,8	0,2	1,8	1,7	1,5	1,3	-0,6	1,5	2,3
Wibor 3M (%)**		1,67	1,71	1,71	1,73	1,73	1,73	1,73	1,73	1,73	1,73	2,23
NBP reference rate (%)**		1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	2,00
EURPLN**		4,24	4,38	4,29	4,40	4,35	4,33	4,23	4,18	4,40	4,18	4,07
USDPLN**		3,73	3,94	3,82	4,18	4,14	4,16	4,03	3,87	4,18	3,87	3,51

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 03/06/2017				
10:30	Eurozone	Sentix Index (pts)	Mar	17,4		18,5
16:00	USA	Factory orders (% MoM)	Jan	1,3	1,1	1,0
		Tuesday 03/07/2017				
10:00	Germany	New industrial orders (% MoM)	Jan	5,2		-2,5
11:00	Eurozone	Revised GDP (% QoQ)	Q4	0,4	0,4	0,4
11:00	Eurozone	Final GDP (% YoY)	Q4	1,7		1,7
		Wednesday 03/08/2017				
	China	Trade balance (bn USD)	Feb	51,4	34,0	25,8
8:00	Germany	Industrial production (% MoM)	Jan	-3,0		2,5
14:15	USA	ADP employment report (k)	Feb	246		190
16:00	USA	Wholesale inventories (% MoM)	Jan	-0,1		-0,1
16:00	USA	Wholesale sales (% MoM)	Jan	2,6		0,3
	Poland	**NBP rate decision (%)**	**Mar**	**1,50**	**1,50**	**1,50**
		Thursday 03/09/2017				
2:30	China	PPI (% YoY)	Feb	6,9	8,1	7,7
2:30	China	CPI (% YoY)	Feb	2,5	2,0	1,7
13:45	Eurozone	EBC rate decision (%)	Mar	0,00	0,00	0,00
		Friday 03/10/2017				
8:00	Germany	Trade balance (bn EUR)	Jan	18,4		18,0
14:30	USA	Unemployment rate (%)	Feb	4,8	4,7	4,7
14:30	USA	Non-farm payrolls (k MoM)	Feb	227	195	190

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank
** Reuters

MACRO MAP

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