This is not the end of a slowdown in Polish manufacturing

This week

- **Polish manufacturing PMI rose to 48.8 pts in August vs. 47.4 pts in July, running above our forecast (47.7 pts) and the market consensus (47.6 pts).** Thus, the index has now for ten months in a row been running below the 50 pts threshold dividing expansion from contraction of activity (see below). It is worth emphasizing that the slowdown of industrial production growth in H2 2019 was taken into account in our forecast of GDP growth in 2019. Thus, today's data do not alter our forecast of GDP growth in the whole 2019 (4.4% YoY vs. 5.1% in 2018). We will present our revised medium-term macroeconomic scenario in the next MACROmap.
- **Important data from the US will be released this week. The publication of data from the labour market is scheduled for Friday.** We expect non-farm payrolls to have increased by 160k in August vs. 164k in July, with unemployment rate down to 3.6% from 3.7% in July. 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 by 140k in August vs. 156k in July). The ISM index for manufacturing will be released on Tuesday and, in accordance with our forecast, will increase to 51.4 pts in August vs. 51.2 pts in July. A slight increase of the index has been signaled earlier by regional business surveys. We believe that that the US readings will be neutral for the financial markets.
- **The released today Caixin PMI for Chinese manufacturing rose to 50.4 pts in August vs. 49.9 pts in July, running clearly above the market expectations (49.8 pts) and our forecast**. At the same time, for the first time since May 2019, the index stood above the 50 pts threshold dividing expansion from contraction of activity. The index increase resulted from higher contributions of three of its five sub-indices (for employment, output and suppliers' delivery times), while lower contributions of the sub-indices for new orders and inventories had an opposite impact. Especially noteworthy in the data structure is the continuing for two months now increase in total orders with a simultaneous decrease in export orders. In our view it is the effect of the measures taken by the Chinese government to stimulate internal demand. On the other hand, the CFLP PMI released during the weekend pointed to a deterioration of sentiment in the Chinese manufacturing, decreasing to 49.5 pts in August vs. 49.7 pts in July. We maintain our forecast for economic growth in China (6.4% in 2019 and 6.0% in 2020). However, to achieve such GDP dynamics, the scale of the growth stimulus implemented by the Chinese government will have to increase. We believe that to this end measures will be taken to increase lending (stopping the process of deleveraging banks, reduction of interest rates) and depreciate CNY in line with the deterioration of the Chinese trade balance. The fiscal policy will also have to be more expansionary.

Last week

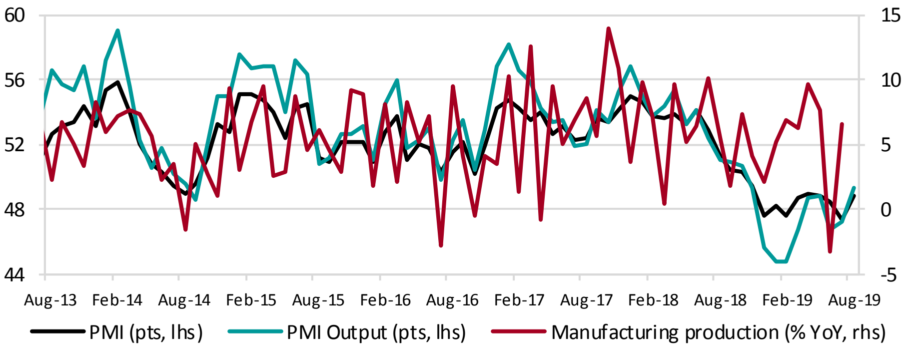
- **The Council of Ministers has adopted draft budget act for 2020.** The draft assumes a balanced state budget composed of the planned expenditures and revenues amounting to PLN 429.5bn. The draft budget assumes real GDP growth rate at 3.7% and average yearly inflation at 2.5% in 2020. These amounts are close to our forecasts. A zero deficit in 2020 was attainable due to so-called stabilizing expenditure rule, which limits the maximum level of public spending and to high one-off incomes (Open Pension Fund transformation fee, sale of emission rights, and sale of frequencies to telecommunication operators). At the same time, further tightening of the tax system is assumed on the budget income side. The materialization of the scenario presented in the draft means that the deficit of the general government sector according to the EU methodology (ESA2010) will amount to 0.3% of GDP. We see a downside risk to the budget - forecasted VAT incomes, due to a high likelihood of overestimating incomes from the tightening of the tax system which may mean that the deficit of the GG sector will be higher in 2020 the one assumed by the draft budget. In addition, the non-recurrent nature of some incomes in 2020 will be conducive to higher deficit in 2021 (after eliminating one-off incomes, the public finance deficit would amount to 1.3% in 2020). However, much more important from the balance of the public finance is the profile of the structural deficit which has not been published yet. It is this deficit which will be crucial for assessing the impact of fiscal policy on economic growth rate and the prospects for monetary policy (in the context of so-called policy-mix) in the coming quarters. A source of uncertainty with regard to the impact of the fiscal policy on demand in 2020 is also the fact that the draft budget does not take into account the payment of 13th pension promised by Prime Minister M. Morawiecki if PIS wins the parliamentary elections this October. In our opinion, one cannot rule out the scenario whereby the payment will in a significant part fit within the limit of the expenditures determined by the stabilizing expenditure rule, resulting in a bigger public finance deficit and a stronger fiscal impulse. The publication of the draft budget act for 2020 does not alter our forecast assuming the stabilization of NBP interest rates at least until the end of 2020.

- **GDP growth rate in Poland dropped to 4.5% YoY in Q2 vs. 4.7% in Q1, running above the flash estimate that was released earlier (4.4%)**. Seasonally-adjusted GDP rose by 0.8% QoQ in Q2 vs. a 1.4% increase in Q1. The decrease in the annual GDP dynamics resulted from lower contributions of net exports (0.0 pp in Q2 vs. 0.7 pp in Q1), public consumption (0.6pp vs. 1.1 pp), and investments (1.5 pp vs. 1.6 pp), while higher contribution of inventories (-0.1 pp vs. -1.1 pp) had an opposite impact. Thus, the main driver of economic growth in Q2, like in Q1, was private consumption (see MACROpulse of 30/8/2019). The data are consistent with our forecast of GDP growth in the whole 2019 (4.4%). We believe that the economic growth will continue to reach relatively high levels in subsequent quarters but will stay within a slight downward trend. On the one hand, conducive to the deceleration of economic growth in Q2 2019 will be lower contribution of net export, due to the downturn in global trade and in the Eurozone, and the abatement of the recovery in investments. On the other hand, the scale of the slowdown will be limited by fast consumption growth, supported by the payments of social transfers. We will present our revised medium-term macroeconomic scenario on 9 September.
- **In accordance with flash estimate, CPI inflation in Poland dropped to 2.8% YoY in August vs. 2.9% in July, running in line with market expectations and below our forecast (2.9%)**. Thus inflation has for third consecutive month stayed above the NBP inflation target (2.5% ± 1 percentage point). GUS has published partial data on inflation structure, including information on the rate of inflation in the categories “food and non-alcoholic beverages”, “energy”, and “fuels”. The decrease in inflation resulted from lower dynamics of the prices of fuels (-0.3% YoY in August vs. 0.7% in July), energy (-1.4% YoY in August vs. -1.0% in July), and core inflation, which, according to our estimates, dropped to 2.1% YoY in August vs. 2.2% in July. On the other hand, conducive to increase in inflation were higher dynamics of the prices of food and non-alcoholic beverages (7.2% YoY in August vs. 6.8% in July – most likely due to higher dynamics of the prices of fruit and meat). In the next MACROmap we will present our revised medium-term inflation forecast, taking into account the August data. Final data on inflation will be released on 13 September.
- **Important data from the US were released last week.** In accordance with the second estimate, the annualized US GDP growth rate amounted to 2.0% in Q2 vs. 2.1% in the first estimate, running in line with the market expectations equal to our forecast. The downward revision resulted from lower contributions of government expenditure (0.77 pp in the second estimate vs. 0.85 pp in the first estimate), next exports (-0.72 pp vs. -0.65 pp), investments (-0.20 pp vs. -0.14 pp), and inventories (-0.91 pp vs. -0.86 pp), while higher contribution of private consumption (3.10 pp vs. 2.85 pp) had an opposite impact. Thus the second estimate has confirmed that the main source of the US economic growth in Q2 was private consumption. Flash data on durable goods orders were also released last week and increased by 2.1% MoM in July vs. a 1.1% increase in June. The increase in the orders dynamics resulted from higher orders

in the Boeing company. Excluding means of transport, the orders dynamics dropped to -0.4% in July vs. 0.8% in June. The annual dynamics of orders for non-military capital goods excluding aircrafts decreased to -0.5% YoY in July vs. 0.9% in June, reaching a negative value for the first time since November 2016. This indicates a high likelihood of investment dynamics decreasing in subsequent quarters. The results of consumer sentiment surveys were also released last week. The still very good consumer sentiment was indicated by the Conference Board Index which decreased to 135.1 pts in August vs. 135.8 pts in July, running visibly above the market expectations equal to our forecast (130.0 pts). Its slight decrease resulted from lower sub-index concerning expectations while higher sub-index for the assessment of the current situation had an opposite impact. On the other hand the University of Michigan Index pointed to a marked deterioration of the US consumer sentiment, decreasing to 89.8 pts in August vs. 98.4 pts in July and 91.1 pts in the flash estimate. The index decrease resulted from its lower sub-indices for both the assessment of the current situation and expectations. The last week's data from the US do not alter our forecast in which the annualized US GDP growth rate will amount to 2.0% in Q3.

- **According to the flash estimate, inflation in the Eurozone has not changed in August compared to July and amounted to 1.0% YoY, running in line with the market expectations equal to our forecast.** The stabilization of inflation resulted from higher dynamics of food and energy prices. We expect that in subsequent quarters inflation will show a downward trend and will reach its local minimum at 0.7% YoY in October. It will then slightly increase but will not exceed 1.3% YoY in the entire horizon of our forecast (i.e. until the end of 2020). In addition, we forecast that core inflation will not exceed 1.4% YoY in the entire forecast horizon. This supports our scenario, in which the ECB will cut the deposit rate by 10 bp to -0.50% in September while introducing a tired rate for commercial banks deposits at the central bank. Also, the ECB will then decide to launch a subsequent round of quantitative easing (QE2) with the monthly purchase scale amounting to EUR 50bn. In our view, the program will be launched at the beginning of 2002 and will last 18 months.
- **GDP in Germany decreased by 0.1% QoQ in Q2 vs. a 0.4% increase in Q1 (0.0% YoY in Q2 vs. 0.6% in Q1), running in line with the market expectations.** The decrease in the quarterly GDP dynamics resulted from lower contributions of net exports (-0.5 pp in Q2 vs. 0.5 pp in Q1), consumption (0.2 pp vs. 0.6 pp), and investments (0.0 pp vs. 0.3 pp). Higher contribution of inventories (0.3 pp vs. -1.0 pp) had an opposite impact. Thus the main source of the German economic growth in Q2 were inventories, while in Q1 it was consumption. Ifo Index reflecting the sentiment among German managers representing the manufacturing, construction, wholesale and retail trade sectors, was also released last week and dropped to 94.2 pts in August vs. 95.8 pts in July, running clearly below the market expectations (95.2 pts). The index decrease resulted from its lower sub-indices concerning both the assessment of the current situation and expectations. Sector-wise, deterioration of sentiment was recorded in all the four sectors covered by the survey (manufacturing, construction, trade, and services. The Ifo data, coupled with the flash PMIs released two weeks ago (see MACROmap of 26/8/2019), pose a downside risk tor our forecast, in which the quarterly GDP growth rate in the German economy will increase to 0.2% in Q3 vs. -0.1% in Q2.

This is not the end of a slowdown in Polish manufacturing

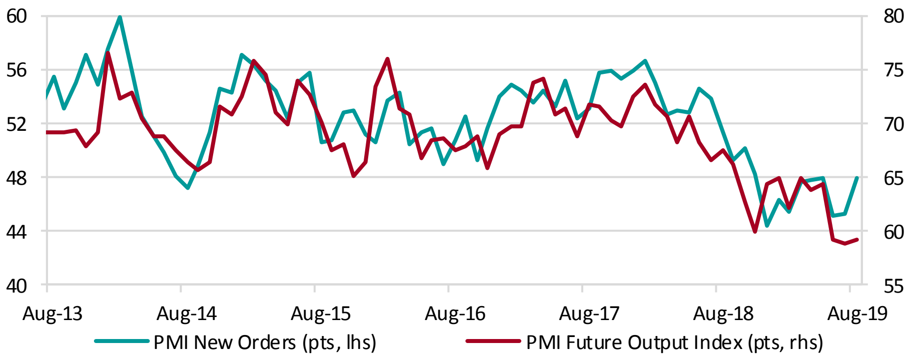


Source: Markit. GUS

Polish manufacturing PMI rose to 48.8 pts in August vs. 47.4 pts in July, running above our forecast (47.7 pts) and the market consensus (47.6 pts). Thus, the index has now for ten months in a row been running below the 50 pts threshold dividing expansion from contraction of activity. The index increase resulted from higher contributions of three of its five sub-indices (concerning employment, output and total new orders). The remaining two sub-indices (suppliers' delivery times and stocks of goods purchased) stood at the same level as in July.

The structure of the August PMI presented the same picture of the Polish manufacturing as in the last few months. Amid decreasing inflow of new orders, the companies are executing outstanding orders (which have been decreasing for 13 consecutive months). However, it is not enough to keep production at unchanged levels – production has gone down (though to a slight extent) for 10^{th} month in a row.

Especially noteworthy in the structure of the August PMI is slower decrease in total new orders, including new export orders. We believe that it is partly due to a slight improvement in the Eurozone manufacturing, in Germany in particular, recorded in August (see MACROmap of 26/8/2019). This view is supported by the increase of PMIs recorded in August for other countries in the region – Czech Republic and Hungary.



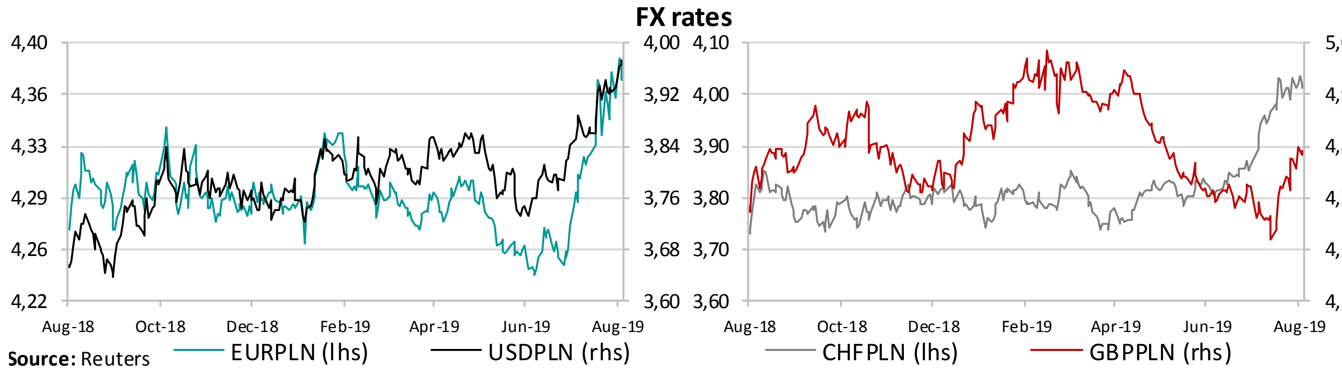
Source: Markit

In August a decrease in the inventories of stocks purchased was recorded for second month in a row. Companies' limited tendencies to increase stocks might signalize their pessimistic expectations concerning demand in coming months. These expectations were also reflected by the Indicator of Future Output Indicator which stood in August only slightly above the July's level (the lowest since October 2012).

GUS data on industrial production for June and July pointed to a decreasing resilience of Polish manufacturing to the slowdown of manufacturing activity in the Eurozone. Today's business survey results indicate the continuation of these tendencies. Therefore, they support our forecast of the slowdown of industrial production growth in Poland to 0.1% YoY in August from 5.8% in July.

It is worth emphasizing that the slowdown of industrial production growth in H2 2019 has been taken into account in our forecast of GDP growth in 2019. Thus, today's reading does not alter our forecast of GDP growth in whole 2019 (4.4% YoY vs 5.1% in 2018). We will present our revised medium-term macroeconomic scenario in the next MACROmap.

USDPLN at the highest level since April 2017

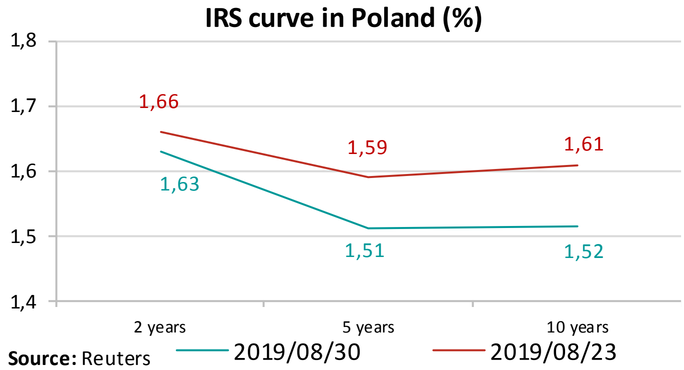


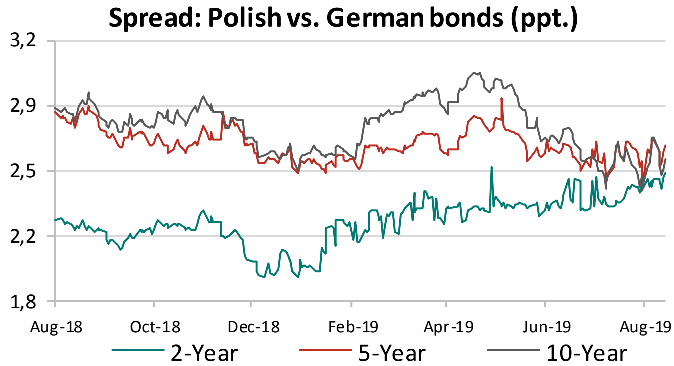
Last week, the EURPLN exchange rate dropped to 4.3737 (PLN strengthening by 0.1%). The beginning of last week saw a decrease in EURPLN, which was a correction after its marked increase on Friday two weeks ago. However, further into the week, PLN tended to depreciate due to the continuing high risk aversion. Investors' sentiment continued to be impacted by the US-China trade war and the uncertainty around Brexit, after the British Prime Minister B. Johnson decided to suspend the works of the British Parliament. On Friday there was a correction, supported by a weaker-than-expected final University of Michigan Index. Domestic data on GDP and inflation did not have any significant impact on PLN.

Due to the continuing high risk aversion, last week also saw the depreciation of EUR vs. USD. Consequently, last week, PLN depreciated vs. USD (USDPLN reached the highest level since April 2017).

Polish and Chinese manufacturing PMIs released this morning are slightly positive for PLN. We believe that this week PLN will be further impacted by global sentiment determined by the US-China trade war and the uncertainty around Brexit. Investors will focus on data from the US (non-farm payrolls, manufacturing ISM). We believe, however, that they will not any significant impact on PLN.

Market focused on US data





Last week, 2-year IRS rates decreased to 1.63 (down by 3bp), 5-year rates to 1.51 (down by 8bp), and 10-year rates to 1.52 (down by 9bp). Monday through Tuesday IRS rates were decreasing across the curve, following the core markets. It was the continuation of the trend from two weeks ago, resulting from global risk aversion. Wednesday saw a correction and the trend reversed. Conducive to higher IRS rates was also the sell-off of securities by some banks which were adjusting the structure of their assets before the approaching CJEU ruling on CHF loans.

This is not the end of a slowdown in Polish manufacturing

The Polish manufacturing PMI released this morning is slightly positive for IRS rates. In our view, they will continue being impacted this week by global sentiment related to the US-China trade war and the uncertainty around Brexit. The US readings scheduled for this week (non-farm payrolls, manufacturing ISM) will not any significant impact on the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
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*	4,30	4,28	4,34	4,29	4,29	4,26	4,30	4,30	4,28	4,28	4,24	4,29	4,37	**4,34**
USDPLN*	3,71	3,69	3,84	3,79	3,74	3,72	3,79	3,84	3,82	3,83	3,73	3,87	3,97	**3,98**
CHFPLN*	3,83	3,75	3,80	3,79	3,81	3,74	3,79	3,85	3,75	3,83	3,82	3,90	4,01	**3,95**
CPI inflation (% YoY)	2,0	1,9	1,8	1,3	1,1	0,7	1,2	1,7	2,2	2,4	2,6	2,9	**2,9**	
Core inflation (% YoY)	0,9	0,8	0,9	0,7	0,6	0,8	1,0	1,4	1,7	1,7	1,9	2,2	**2,1**	
Industrial production (% YoY)	5,0	2,7	7,4	4,6	2,8	6,0	6,9	5,5	9,2	7,6	-2,6	5,8	**0,1**	
PPI inflation (% YoY)	3,0	3,0	3,2	2,8	2,1	2,2	2,9	2,5	2,6	1,4	0,5	0,6	**0,8**	
Retail sales (% YoY)	9,0	5,6	9,7	8,2	4,7	6,6	6,5	3,1	13,6	7,3	5,3	7,4	**6,3**	
Corporate sector wages (% YoY)	6,8	6,7	7,6	7,7	6,1	7,5	7,6	5,7	7,1	7,7	5,3	7,4	**7,0**	
Employment (% YoY)	3,4	3,2	3,2	3,0	2,8	2,9	2,9	3,0	2,9	2,7	2,8	2,7	**2,7**	
Unemployment rate* (%)	5,8	5,7	5,7	5,7	5,8	6,1	6,1	5,9	5,6	5,4	5,3	5,2	**5,2**	
Current account (M EUR)	-1005	-876	-405	343	-1126	2438	-718	116	720	874	21	**10**		
Exports (% YoY EUR)	8,9	-1,5	13,2	8,1	1,7	5,4	9,9	7,8	10,1	12,7	-1,6	**9,0**		
Imports (% YoY EUR)	14,0	4,2	18,1	9,2	2,2	1,6	7,8	2,6	8,5	11,3	-3,1	**7,8**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator	2019				2020				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	4,7	4,5	4,4	4,2	4,2	3,9	3,7	3,5	5,1	4,4	3,8
Private consumption (% YoY)	3,9	4,4	4,5	4,0	3,7	3,6	3,5	3,4	4,5	4,3	3,6
Gross fixed capital formation (% YoY)	12,6	9,0	8,1	6,9	4,8	4,9	5,2	4,8	8,7	8,5	4,9
Export - constant prices (% YoY)	5,9	3,9	5,0	4,9	5,0	5,2	5,2	5,0	6,3	5,4	5,1
Import - constant prices (% YoY)	5,0	4,3	7,5	7,2	6,9	6,7	6,2	6,3	7,1	6,5	6,5
GDP growth contributions: Private consumption (pp)	2,4	2,5	2,7	2,0	2,3	2,1	2,1	1,7	2,6	2,5	2,1
GDP growth contributions: Investments (pp)	1,6	1,5	1,4	1,7	0,6	0,8	1,0	1,2	1,5	1,5	0,9
GDP growth contributions: Net exports (pp)	0,7	0,0	-1,1	-1,0	-0,8	-0,6	-0,4	-0,6	-0,2	-0,4	-0,6
Current account (% of GDP)***	-0,3	-0,1	-0,3	-0,4	-0,5	-0,6	-0,8	-0,8	-0,6	-0,4	-0,8
Unemployment rate (%)**	5,9	5,3	5,4	5,7	5,8	5,1	5,3	5,6	5,8	5,7	5,6
Non-agricultural employment (% YoY)	0,0	0,2	0,2	0,1	0,1	0,1	0,1	0,1	0,9	0,1	0,1
Wages in national economy (% YoY)	7,1	7,0	7,8	7,7	7,7	7,7	7,3	7,1	7,2	7,4	7,5
CPI Inflation (% YoY)*	1,2	2,4	2,4	2,4	2,9	1,9	1,8	1,6	1,6	2,1	2,0
Wibor 3M (%)**	1,72	1,72	1,72	1,72	1,72	1,72	1,72	1,72	1,72	1,72	1,72
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
EURPLN**	4,30	4,24	4,34	4,28	4,28	4,28	4,25	4,23	4,29	4,28	4,23
USDPLN**	3,84	3,73	3,98	3,75	3,69	3,63	3,54	3,50	3,74	3,75	3,50

Our revised macroeconomic scenario will be published on 9th of September.

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 09/02/2019				
3:45	China	Caixin Manufacturing PMI (pts)	Aug	50,2	49,7	49,8
9:00	**Poland**	**Manufacturing PMI (pts)**	**Aug**	**47,4**	**47,7**	**47,6**
9:55	Germany	Final Manufacturing PMI (pts)	Aug	43,6	43,6	43,6
10:00	Eurozone	Final Manufacturing PMI (pts)	Aug	47,0	47,0	47,0
		Tuesday 09/03/2019				
11:00	Eurozone	PPI (% YoY)	Jul	0,7		0,2
15:45	USA	Flash Manufacturing PMI (pts)	Aug	49,9		
16:00	USA	ISM Manufacturing PMI (pts)	Aug	51,2	51,4	51,0
		Wednesday 09/04/2019				
10:00	Eurozone	Services PMI (pts)	Aug	53,4	53,4	53,4
10:00	Eurozone	Final Composite PMI (pts)	Aug	51,8	51,8	51,8
11:00	Eurozone	Retail sales (% MoM)	Jul	1,1		-0,6
		Thursday 09/05/2019				
8:00	Germany	New industrial orders (% MoM)	Jul	2,5		-1,5
14:15	USA	ADP employment report (k)	Aug	156		150
14:30	USA	Initial jobless claims (k)	w/e	215		215
16:00	USA	Factory orders (% MoM)	Jul	0,6	1,2	1,0
16:00	USA	ISM Non-Manufacturing Index (pts)	Aug	53,7	53,5	53,8
		Friday 09/06/2019				
8:00	Germany	Industrial production (% MoM)	Jul	-1,5		0,3
11:00	Eurozone	Final GDP (% YoY)	Q2	1,1		1,1
11:00	Eurozone	Revised GDP (% QoQ)	Q2	0,2	0,2	0,2
11:00	Eurozone	Employment (% YoY)	Q2	1,1		
14:30	USA	Unemployment rate (%)	Aug	3,7	3,6	3,7
14:30	USA	Non-farm payrolls (k MoM)	Aug	164	160	159

*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

Jakub BOROWSKI
Chief Economist
tel.: 22 573 18 40
jakub.borowski@credit-agricole.pl

Krystian JAWORSKI
Senior Economist
tel.: 22 573 18 41
krystian.jaworski@credit-agricole.pl

Jakub OLIPRA
Economist
tel.: 22 573 18 42
jakub.olipra@credit-agricole.pl