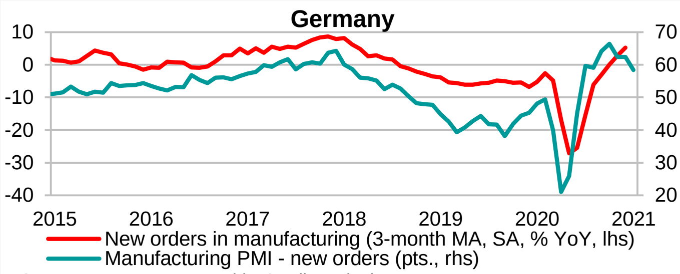
Housing prices will not stop rising

This week

- **This week, some important data on the US economy and business survey results will be released.** We expect headline inflation to have increased to 1.5% YoY in January vs. 1.4% in December, driven by stabilisation of core inflation (1.6%) and a higher increase in energy prices. Results of business surveys from the US will also be published. We are expecting the preliminary University of Michigan index (81.0 pts in February vs. 79.0 pts in January) to signal some improvement in household sentiment. We believe that the overall impact of the data from the US economy on financial markets will be limited.
- **On Friday, we will see a preliminary estimate of Poland's GDP for Q4 2020.** Based on GUS data on GDP for 2020 published two weeks ago (see MACROpulse of 29/01/2021), we are estimating that GDP dropped by 3.0% YoY in Q4 vs. a 1.5% increase in Q3 last year. The decline in the GDP growth rate was driven by lower contributions of private consumption, net exports, and investments, and a higher contribution of change in inventories. At the same time, data on seasonally-adjusted GDP will be published. We expect a decline in seasonally-adjusted economic activity in Q4 compared with Q3 due to the second wave of the COVID-19 pandemic and the restrictions put in place by the government. The publication of GDP data should not meet with significant market reactions.
- **Important data on the German economy has been published in recent days.** Based on today's data, industrial production did not change in December compared to November vs. an increase of 1.5% MoM in November, running slightly below market expectations (+0.3%). The rate of growth in industrial production was driven down by energy and manufacturing with an opposite impact of construction. In consequence, industrial production in Germany continues to be markedly lower, by ca. 3.6%, than in February 2020, which had been the last month before the pandemic hit industrial production in Germany. Last week, data on new orders in manufacturing in Germany was released, showing that new orders fell by 1.9% MoM in December vs. an increase of 2.7% in November, which was below market expectations (-1.0%). Drop in orders was recorded both for domestic orders and international orders. On Tuesday, data on the trade balance in Germany will be published, which is expected to show similar trends in international trade to those in manufacturing orders. The data on new orders in manufacturing is somewhat surprising in the light of the business survey (PMI) data published earlier, which showed no significant impact of the second wave of the pandemic on orders. We believe that data on the German economy will be neutral for financial markets.

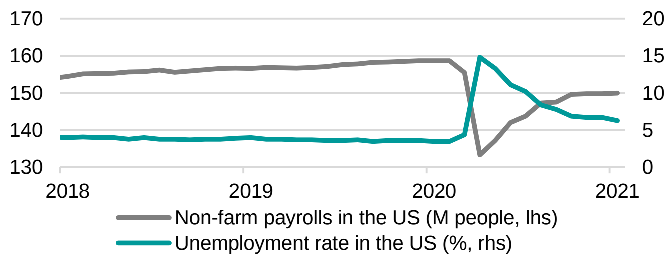


Source: Datastream, Markit, Credit Agricole

Last week

- **As we expected, the Monetary Policy Council did not change interest rates at its meeting last week (the reference rate is 0.10%).** In accordance with its press release, the MPC expects economic activity to recover in 2021, with the scale of recovery depending mainly on the development of the pandemic situation and related restrictions. Like in January this year, last week's statement emphasised a positive impact of economic policy measures taken, including the easing of the NBP's monetary policy, on economic activity. However, the Council maintained its opinion that the heightened uncertainty and the weaker sentiment of economic agents compared to before the pandemic, combined with the lack of a visible and more durable zloty exchange rate adjustment to the global pandemic shock and to the monetary policy easing introduced by NBP, will slow down economic recovery. The Council also maintained its declaration concerning its foreign exchange policy expressed in the January statement to the effect that in order to strengthen the impact of NBP's monetary policy easing on the economy, NBP may also intervene in the foreign exchange market (see MACROpulse of 03/02/2021). In accordance with the statement, the NBP is going to continue to purchase treasury securities and debt securities guaranteed by the State Treasury in the secondary market as part of structural open market operations (the value of bonds purchased so far is PLN 108.6bn). The statement following the MPC meeting is consistent with our revised forecast that the MPC will not change interest rates until the end of 2022 (see MACROmap of 1/2/2021). We expect the reference rate to be raised for the first time, from 0.10% to 0.25%, in Q1 2023. At the same time, despite the appreciation of the PLN seen last week, we expect the NBP to continue to intervene in the foreign currency market to reduce the pace and scale of PLN appreciation, supported by lower risk aversion that can be seen globally. We still expect the EURPLN rate to stand at 4.50 at the end of Q1 2021, and to begin to fall gradually and sustainably below that level in Q2 2021.

Last week, some important data on the US economy was released. The number of new jobless claims dropped to 779k vs. 812k two weeks ago, running below market expectations (830k). The number of continued claims dropped, too (from 4.8M to 4.6M), which, however, was to a large extent due to the loss of the right to benefits by long-term unemployed. Last week also saw the publication of data on non-farm payrolls, which rose by 49k in January vs. a drop of 227k in December (a substantial downward revision from +140k), running close to market expectations (+50.0k). The biggest increases in payrolls were seen in professional and business services (+97.0k), the government sector (+43.0k), and in information (+16.0k). The biggest drops in payrolls were seen in leisure and hospitality (-61.0k), retail trade (-37.8k), and in transportation and warehousing (-27.8k), i.e. in those segments that were most affected by the administrative restrictions put in place due the second wave of the pandemic. Payrolls in manufacturing fell by 10.0k, which is somewhat surprising in the light of business survey results (see below). The unemployment rate dropped to 6.3% in January from 6.7% in December, which resulted from a strong increase in employment as well as from some of the jobless exiting the labour market (labour force participation rate dropped to 61.4% in January from 61.5% in December. The January data on non-farm payrolls in the US combined with the data on the number of jobless claims indicate that the second wave of the pandemic clearly slowed down the recovery in the US labour market which is still far away from its equilibrium. The ISM manufacturing index went down to 58.7 pts in January from 60.5 pts in December, running below market expectations (60.0 pts). The index was driven down by 3 out of its 5 sub-indices (new orders, current output, inventories), with an opposite impact of employment and delivery times. However, all sub-indices remain all the time above the 50-point mark that separates growth from contraction. At the same time, the ISM non-manufacturing index rose in January to 58.7 pts from 57.7 pts in December. The index was driven up by higher contributions of employment and new orders components, while opposite impact came from lower contributions of delivery times and business activity subindices. The clear shortening of delivery times was, in our opinion, connected with a slowdown in new COVID-19 infections in the US (see CABP COVID Dashboard), which was probably conductive to some service businesses resuming their activities. We are forecasting that the annualized growth rate of US GDP will fall to 1.2% in Q1 from 4.0% in Q4. We believe that in Q1 the US economy will continue to be strongly adversely affected by administrative restrictions imposed



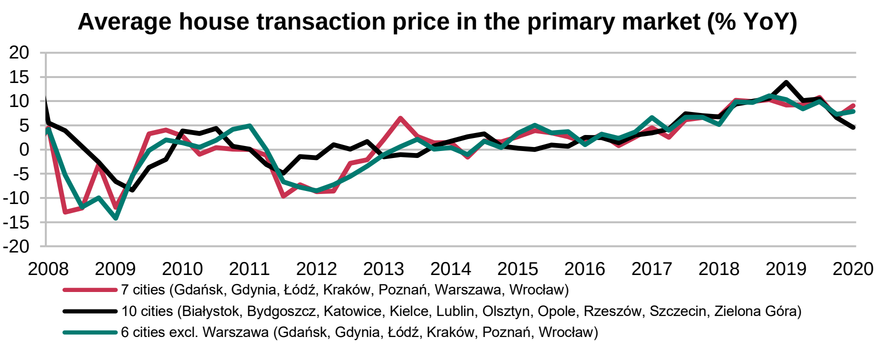
Source: Datastream, Credit Agricole

due to the second wave of the pandemic. We do not expect economic growth to accelerate markedly before the H2 2021, when the launch of a new fiscal package will be conducive to faster growth. We expect its scale to be nearly USD 1.9trn.

- **The preliminary estimate of GDP in the Eurozone was published last week.** Quarterly GDP growth in the single currency area decelerated to -0.7% in Q4 from 12.4% in Q3 (-5.1% YoY in Q4 vs. -4.3% in Q3), above market expectations (-1.0% QoQ and -5.4% YoY). The marked contraction of GDP growth in the Eurozone between Q3 and Q4 was due to high base effects in Q3, as well as the strong negative impact of the second wave of the pandemic on economic activity in the single currency area. A quarter-on-quarter contraction in GDP was recorded in Italy (-2.0% QoQ in Q4 vs. 16.0% in Q3), France (-1.3% vs. 18.5%) and Austria (-4.3% vs. 12.0%), while GDP increased slightly in Germany (0.1% QoQ in Q4 vs 8.5% in Q3), Spain (0.4% vs 16.4%), Belgium (0.2% vs 11.6%), Portugal (0.4% vs 13.3%), Lithuania (1.2% vs 3.8%) and Latvia (1.1% vs 7.1%). Detailed data on the structure of GDP in the Eurozone will be released on 9 March. We forecast that GDP in the Eurozone will increase by 3.8% YoY in 2021 and in 2022 it will rise by 3.9%.
- **Last week, Prime Minister M. Morawiecki announced the lifting of some administrative restrictions aimed at halting the spread of the epidemic.** According to M. Morawiecki, as of 12 February, hotels will be open (maximum occupancy at 50% of available rooms, meals served only to rooms), cinemas, theatres, operas and philharmonics (maximum 50% of seats may be occupied), swimming pools, ski slopes, outdoor courts and sports fields. Gyms and restaurants will remain closed. We believe that with the current low level of population vaccination and the emergence of new, more infectious coronavirus mutations, the next few months could see a marked increase in infections and tightening of administrative restrictions. This is consistent with our scenario assuming a 'crawling lockdown' in Q1. At the same time, the lifting of some administrative restrictions announced by M. Morawiecki does not change our economic growth forecast for 2021 (3.6% YoY vs. -2.8% in 2020).

Housing prices will not stop rising

At the beginning of last year (see MACROmap of 17/2/2020), we presented our forecast of housing prices developments in the medium term. At that time, we outlined a scenario of continued price increases in the housing market, the pace of which would, however, gradually decrease. Although such a scenario materialized in 2020, it is difficult to assess the accuracy of our predictions due to the outbreak of the COVID-19 pandemic, as it contributed to a clear deviation of the macroeconomic situation from the assumptions we used for our analysis. Below we present our latest forecasts for price developments in the property market.



Source: NBP, Credit Agricole

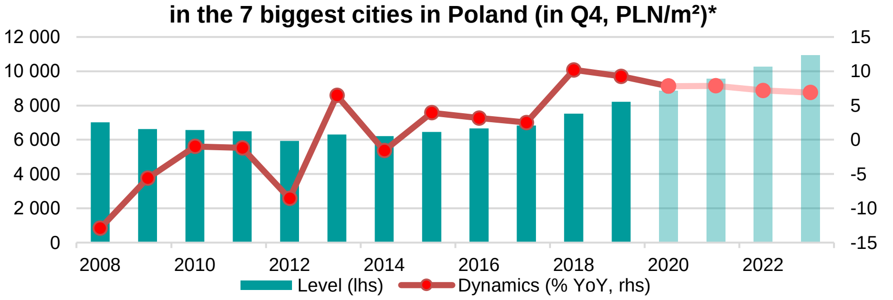
According to NBP data, the growth rate of transaction prices in the primary market has been at around 8-10% YoY since Q4 2018. During the pandemic, prices decreased only in Q2 (on average by 1.3% QoQ for the 7 largest cities in Poland, see chart). In Q3, rates returned to an upward trend, more than making up for declines recorded in Q2. Data for Q4 2020 is not yet available. Given the uncertainty surrounding the further course of the pandemic and economic developments, medium-term house price forecasts may be characterised by a larger than usual error.

In our analysis, we use data from the NBP on house transaction prices in the primary market, averaged over the seven largest Polish cities (Gdansk, Gdynia, Lodz, Cracow, Poznan, Warsaw, Wroclaw). In order to prepare the forecast, we have used an econometric model in which the annual dynamics of dwelling prices depends on three variables:

- **Unemployment rate according to LFS,** which in the model represents the impact of changes in the households' housing demand on the profile of dwelling prices. The unemployment rate permits to simultaneously grasp many factors which determine the housing demand from the perspective of the situation in the labour market (changes in salaries, creditworthiness, concerns about loss of work, etc.). This variable has been used in the model with a one quarter lead, which means that it is the expectations concerning changes in the labour market (and thus the households' financial standing) that are very important in the context of the decision to buy a flat.
- **Value of cash purchases of dwellings**, which represents the impact of so-called investment demand (long-term investment of capital) on dwelling prices. We have used here the annual dynamics of the NBP-estimated cash demand for the purchase of developer dwellings in the aforementioned seven cities.
- **Households' expectations of the rise in dwelling prices.** We use the results of 'The ING Financial Barometer' survey as the measure of such expectations. In 2014-2018, 34-38% of survey participants shared the opinion, that the prices of dwellings never fall. In the 2018-2019 period the percentage of those who gave a yes answer stood at ca. 50%. In 2020, on the other hand, there was a decline in this percentage to 46%. This variable reflects not only the Poles' propensity to buy a flat fearing further rise in prices but it is also supposed to reflect changes in the speculative demand (purchase of dwellings by short-term investors).

This model explains well the changes in transaction prices in the primary housing market (the model's data match amounts to ca. 80%). What's more, its fit to the data did not noticeably deteriorate during the pandemic. When a zero-one variable taking the value '1' during the pandemic was added to the model, the model fit did not increase significantly. Moreover, this variable turned out to be statistically insignificant and its inclusion did not significantly affect the estimates of parameters standing next to the other variables.

In order to prepare a forecast of dwelling prices we had to accept several assumptions concerning the evolution of the explanatory variables in the coming years. After a temporary increase in 2020, we expect the unemployment rate to decline again in 2021 and to hover around 3.0% over the forecast horizon. This tendency will result i.a. from the acceleration of economic growth that we expect, which is related to the cycle the absorption of EU funds. In the context of cash demand, we observed a marked decline in Q2 and Q3 2020 (by 8.0% YoY) due to increased uncertainty regarding the further course of the pandemic and its impact on the labour market situation and demand for rental housing. We believe that as the epidemic situation normalizes, we will see a renewed increase in cash home purchases. Interest rates will remain unchanged in the coming years, which will encourage investment in dwellings as an alternative to low-interest-bearing bank deposits. These investments can be financed from the savings buffer accumulated by households during the pandemic, which according to our estimates amounted to approximately PLN 90bn in 2020 (see MACROmap of 25/01/2021). To adopt the assumption of rising cash demand for housing will be consistent with the assumption that the proportion of Poles expecting that 'house prices never fall' will remain elevated. Our forecast assumes that the percentage of survey participants who agree with this thesis will decrease slightly to 44% in the horizon of 2023 and will remain well above the 2014-2017 average.



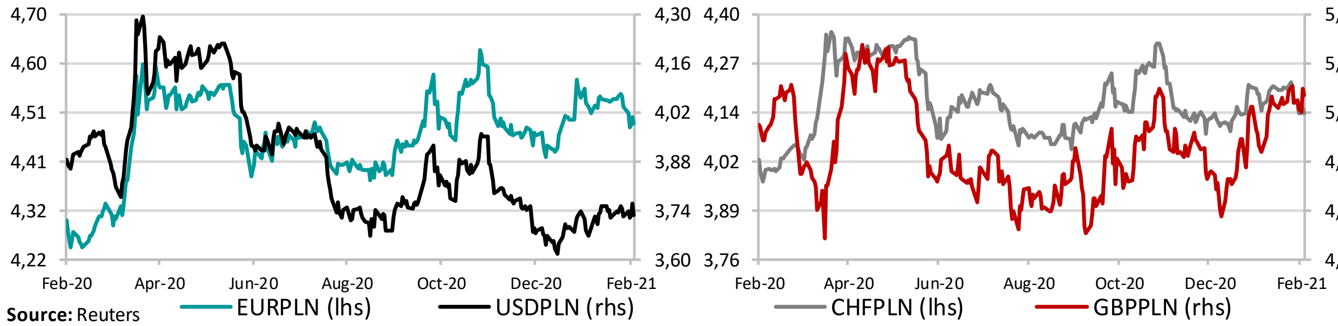
Source: NBP, Credit Agricole *forecast beyond 2019

In accordance with the above assumptions, we forecast that the growth rate of dwelling prices in the primary market will drop to 7.8% YoY Q4 in 2020 and in subsequent years will be showing a downward trend to reach a level of 6.8% in 2023. This means that the average transaction price in the seven aforementioned cities will increase from PLN 8.9k in Q4 2020 to PLN 11.0k at the end of 2023 (see chart). It should be pointed out that this forecast is conditional and depends on the materialization of the scenario outlined above for the explanatory variables. The expected further albeit slower rise in dwelling prices will be supported not only by sustained demand but also by a limited supply of new dwellings due to developers' difficulties in acquiring new land for investments. Another factor pushing housing prices up is the entry into force in 2021 of regulations requiring newly built homes to meet stricter energy standards.

We see a downside risk to our forecast in the event that the scenario of an unfavourable course of the COVID-19 pandemic materialises in subsequent quarters. In such conditions, we will see a decline in demand for rental housing due to i.a. prolonged remote learning, restrictions on tourism or a reduced influx of immigrants. And this in turn will reduce the attractiveness of buying property for investment purposes. In such an alternative scenario, a deterioration in the labour market would be an additional factor weakening the upward pressure on prices.

NBP's presence in the FX market holds back the strengthening of the PLN

FX rates



Source: Reuters

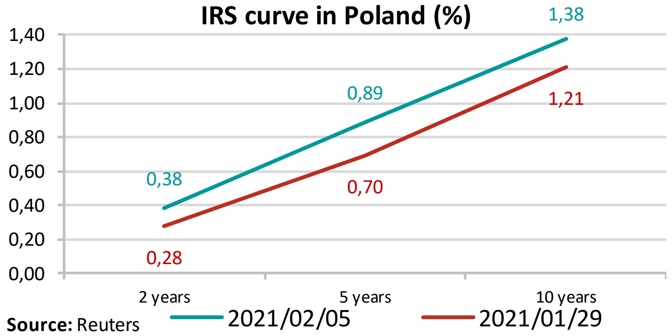
Last week, the EURPLN rate dropped to 4.4858 (the PLN strengthened by 0.7%). From Monday to Wednesday, the EURPLN exchange rate followed a clear downward trend. The appreciation of the PLN was supported by a reduction in global risk aversion, which was reflected in a decrease in the VIX index. The improvement in sentiment in the financial markets was supported by growing expectations among investors of the gradual phasing out of the coronavirus pandemic as the number of vaccinated people is increasing. As a result, on Wednesday the EURPLN exchange rate fell slightly below the level of 4.50. In its statement following Wednesday's meeting, the NBP reiterated its readiness to intervene in the foreign currency market, which led to a correction and another rise in the EURPLN exchange rate above the 4.50 level. It is worth noting that the weakening of the PLN took place amid a further decline in risk aversion, which suggests that the NBP's presence in the foreign exchange market remains an important factor limiting pressure on the appreciation of the Polish currency. On Friday, the PLN strengthened again in response to the statements of NBP President A. Glapiński at a press conference, who said that the most likely scenario in the coming quarters is stabilization of interest rates in Poland.

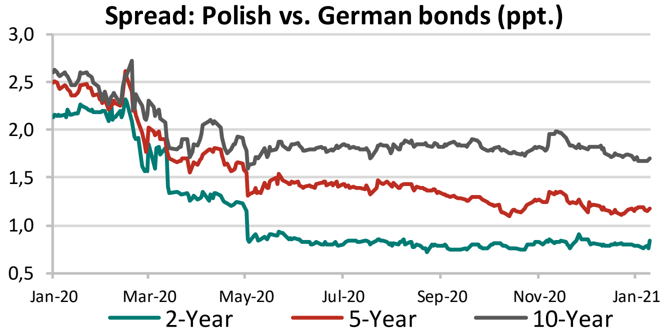
Last week we also saw a strengthening of the USD against the EUR. This was largely due to a markedly slower pace of vaccination in the EU compared with the US. The slight weakening of the EUR is consistent with our forecast that the EURUSD exchange rate will reach 1.19 at the end of March this year. In the following quarters, however, we expect the trend to reverse and the EURUSD exchange rate to rise to 1.22 at the end of this year. The depreciation of the USD will result from a further decline in global risk aversion with the phasing out of the pandemic.

This week the PLN exchange rate will remain under the influence of sentiment on the global market related to the course of the pandemic. In our opinion, this week's data releases from the US (inflation, preliminary University of Michigan index) and Poland (preliminary GDP) will not have a significant impact on the exchange rate of the Polish currency.

We expect that this week the EURPLN exchange rate will be in the range of 4.50. At the same time, we believe that in the case of increasing pressure on the appreciation of the PLN, further NBP currency interventions are possible. This assessment is supported by the statement following the February meeting of the MPC (see MACROplse of 3/2/2021).

IRS rates influenced by sentiment in core markets





Source: Reuters

Last week, 2-year IRS rates increased to 0.38 (up by 10 bps), 5-year rates to 0.89 (up by 19 bps) and 10-year ones to 1.38 (up by 17 bps). Throughout last week we saw marked growth in IRS rates along the curve, following core markets. The rise in yields in the core markets was supported by a decline in global risk aversion due to investors' expectations of a gradual phasing out of the pandemic together with increasing number of vaccinations. On Friday, the upward trend in IRS rates in Poland was driven by the government's decision to partially 'unfreeze' the economy, as well as NBP President A. Glapiński's statements at a press conference, pointing to interest rates stabilization in the coming quarters. A debt swap auction was held on Thursday, at which the Ministry of Finance repurchased PLN 4.5bn worth of bonds maturing this year, selling bonds with 2-, 4-, 5-, 9- and 10-year maturities for PLN 4.5bn against a demand of PLN 5.7bn. It is worth noting that it was for the first time ever that the Ministry of Finance sold a bond (OK0423) with a yield of 0.000%. The swap auction had no significant impact on the curve.

We expect sentiment in global financial markets related to the course of the pandemic to remain a significant factor affecting IRS rates this week. At the same time, we believe that this week's data releases from the US (inflation, preliminary University of Michigan index) and Poland (preliminary GDP) will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
NBP reference rate (%)	1,50	1,50	1,00	0,50	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10
EURPLN*	4,30	4,33	4,55	4,54	4,44	4,44	4,41	4,40	4,53	4,60	4,47	4,55	4,52	**4,50**
USDPLN*	3,87	3,92	4,13	4,15	4,00	3,95	3,74	3,68	3,86	3,95	3,75	3,73	3,72	**3,72**
CHFPLN*	4,02	4,06	4,29	4,30	4,16	4,17	4,10	4,07	4,21	4,32	4,13	4,21	4,18	**4,13**
CPI inflation (% YoY)	4,3	4,7	4,6	3,4	2,9	3,3	3,0	2,9	3,2	3,1	3,0	2,4	**2,6**	
Core inflation (% YoY)	3,1	3,6	3,6	3,6	3,8	4,1	4,3	4,0	4,3	4,2	4,3	3,7	**3,7**	
Industrial production (% YoY)	1,1	4,8	-2,4	-24,6	-16,8	0,5	1,1	1,5	5,7	1,0	5,4	11,2	**0,0**	
PPI inflation (% YoY)	0,9	0,2	-0,3	-1,4	-1,7	-0,8	-0,6	-1,3	-1,4	-0,4	-0,2	0,0	**0,4**	
Retail sales (% YoY)	5,7	9,6	-7,0	-22,6	-8,6	-1,9	2,7	0,4	2,7	-2,1	-5,3	-0,8	**-6,6**	
Corporate sector wages (% YoY)	7,1	7,7	6,3	1,9	1,2	3,6	3,8	4,1	5,6	4,7	4,9	6,6	**4,1**	
Employment (% YoY)	1,1	1,1	0,3	-2,1	-3,2	-3,3	-2,3	-1,5	-1,2	-1,0	-1,2	-1,0	**-1,6**	
Unemployment rate* (%)	5,5	5,5	5,4	5,8	6,0	6,1	6,1	6,1	6,1	6,1	6,1	6,2	**6,5**	
Current account (M EUR)	2756	1100	805	823	1560	3175	625	1093	1517	2356	1725	**485**		
Exports (% YoY EUR)	4,9	8,0	-6,6	-29,6	-19,3	3,9	1,7	1,9	6,1	3,8	9,5	**15,6**		
Imports (% YoY EUR)	3,9	0,9	-3,9	-28,9	-27,3	-7,4	-4,3	-4,7	1,8	-3,5	5,3	**13,0**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator	2020				2021				2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	1,9	-8,4	-1,5	-3,0	-1,0	6,9	4,0	4,4	-2,8	3,6	4,9
Private consumption (% YoY)	1,2	-10,8	0,4	-3,0	0,0	7,1	3,5	3,1	-3,0	3,3	4,1
Gross fixed capital formation (% YoY)	0,9	-10,7	-9,0	-10,7	-7,2	5,4	6,0	6,3	-12,2	3,6	8,2
Export - constant prices (% YoY)	2,0	-14,5	2,0	0,9	3,5	9,0	4,5	5,4	-2,5	5,5	8,3
Import - constant prices (% YoY)	0,4	-18,0	-1,0	2,0	3,0	9,1	3,8	3,4	-4,1	4,6	8,9
GDP growth contributions: Private consumption (pp)	0,8	-6,2	0,2	-1,5	0,0	3,9	2,1	1,6	-1,7	1,9	2,3
GDP growth contributions: Investments (pp)	0,1	-1,8	-1,7	-2,7	-0,9	0,9	1,0	1,5	-1,6	0,6	1,4
GDP growth contributions: Net exports (pp)	0,9	1,1	1,7	-0,5	0,5	0,7	0,6	1,2	-0,3	0,8	0,0
Current account (% of GDP)***	1,0	2,1	2,8	3,5	2,9	2,8	2,5	2,7	3,5	2,7	2,3
Unemployment rate (%)**	5,4	6,1	6,1	6,2	6,3	5,7	5,4	5,6	6,2	5,6	5,2
Non-agricultural employment (% YoY)	0,7	-1,8	-0,7	-0,5	0,0	1,8	0,7	0,5	-0,6	0,8	0,4
Wages in national economy (% YoY)	7,7	3,8	4,8	4,0	2,8	3,3	3,0	3,1	5,1	3,1	5,8
CPI Inflation (% YoY)*	4,5	3,2	3,0	2,8	2,2	2,8	2,7	2,8	3,4	2,6	2,2
Wibor 3M (%)**	1,17	0,26	0,22	0,21	0,21	0,21	0,21	0,21	0,21	0,21	0,26
NBP reference rate (%)**	1,00	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10
EURPLN**	4,55	4,44	4,53	4,55	4,50	4,46	4,42	4,37	4,55	4,37	4,27
USDPLN**	4,13	3,95	3,86	3,73	3,78	3,72	3,65	3,58	3,73	3,58	3,42

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

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 02/08/2021				
8:00	Germany	Industrial production (% MoM)	Dec	0,9		0,3
10:30	Eurozone	Sentix Index (pts)	Feb	1,3		1,9
		Tuesday 02/09/2021				
8:00	Germany	Trade balance (bn EUR)	Dec	16,4		16,0
		Wednesday 02/10/2021				
2:30	China	PPI (% YoY)	Jan	-0,4		0,4
2:30	China	CPI (% YoY)	Jan	0,2		-0,1
14:30	USA	CPI (% MoM)	Jan	0,4	0,4	0,3
14:30	USA	Core CPI (% MoM)	Jan	0,1	0,2	0,2
16:00	USA	Wholesale inventories (% MoM)	Dec	0,1		0,1
16:00	USA	Wholesale sales (% MoM)	Dec	0,2		
		Thursday 02/11/2021				
14:30	USA	Initial jobless claims (k)	w/e	779		775
		Friday 02/12/2021				
10:00	**Poland**	**Flash GDP (% YoY)**	**Q4**	**-1,5**	**-3,0**	**-3,0**
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Feb	79,0	81,0	80,6

*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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