

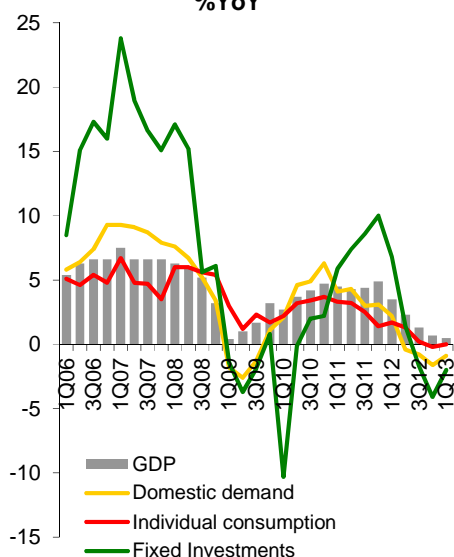
Instant comment

Weak GDP and domestic demand in 1Q

29 May 2013

GDP growth in 1Q2013 amounted to a mere 0.5%YoY, with fixed investments falling by 2.0%YoY and consumer demand stagnating (0.0%YoY). The upcoming quarters should bring a slow economic recovery, fuelled mainly by reviving foreign demand, but the weak beginning of the year may mean that GDP growth will not exceed 1% in 2013 as a whole. E. Chojna-Duch said after the release that there is room for a cautious rate cut. We are also expecting that the MPC will cut rates by 25bps at its June meeting.

GDP growth and its components, %YoY



GDP growth in 1Q2013 amounted to 0.5%YoY, i.e. slightly higher than the flash estimate (0.4%). In line with our expectations, continuing weakness of the domestic demand was the main source of slow economic growth, as it plunged by 0.9%YoY (the fourth quarter in a row of negative annual growth). Individual consumption stagnated at 0%YoY (vs -0.2%YoY in 4Q2012), while investments contracted by 2%YoY (vs -4.1% in the previous quarter). Results of consumption are below expectations, while investments are above. A similar situation took place during flash release of GDP data for 4Q2012. However, one should remember that eventually the CSO strongly revised the 4Q data, raising the growth rate of consumption (from -1% to -0.2%YoY) and significantly lowering fixed investments (from -0.3% to -4.1%YoY). Thus, it is difficult to argue that slightly less considerable pace of contraction in investments in Q1 is a harbinger of recovery, especially that growth rate of construction and assembly output may be worse in Q2 than in was in Q1.

Net exports delivered a marked positive contribution to GDP growth (+1.4pp), yet it was weaker than in Q4 (+2.4pp) and lower than estimate based on balance of payments data (in Q1 trade and services recorded a surplus of over PLN6bn, the highest number since mid-90, which was an improvement by PLN10bn as compared to 1Q2012).

We uphold our stance that in the coming quarters the pace of GDP growth should not decline further. Improvement in economic activity in Q2 2013 might be only marginal and it seems we are still running at the bottom of business cycle. However, in the second half of 2013 we foresee more visible GDP acceleration. Next exports will remain the main engine of GDP growth, but the pace of growth of domestic demand should also gradually rebound. Our updated GDP forecasts we will published in June's monthly report MACROscope.

GDP growth and its components (%YoY)

	2009	2010	2011	2012	1Q12	2Q12	3Q12	4Q12	1Q13
GDP	1.6	3.9	4.5	1.9	3.5	2.3	1.3	0.7	0.5
Domestic demand	-1.1	4.6	3.6	-0.2	2.2	-0.4	-0.8	-1.6	-0.9
Total consumption	2.0	3.4	1.6	0.6	1.1	1.1	0.5	-0.3	-0.1
Individual consumption	2.1	3.2	2.6	0.8	1.7	1.3	0.2	-0.2	0.0
Public consumption	2.1	4.1	-1.7	0.0	-1.0	0.4	1.6	-0.6	-0.5
Gross accumulation	-11.5	9.3	11.2	-3.3	9.2	-6.0	-5.7	-4.9	-5.8
Gross fixed investment	-1.2	-0.4	7.7	-0.8	6.8	1.4	-1.7	-4.1	-2.0
Net exports*	2.7	-0.7	0.9	2.1	1.2	2.7	2.1	2.4	1.4

* contribution to GDP growth (in pct. points)

Maciej Reluga Chief Economist +48 22 586 8363

Piotr Bielski +48 22 586 8333

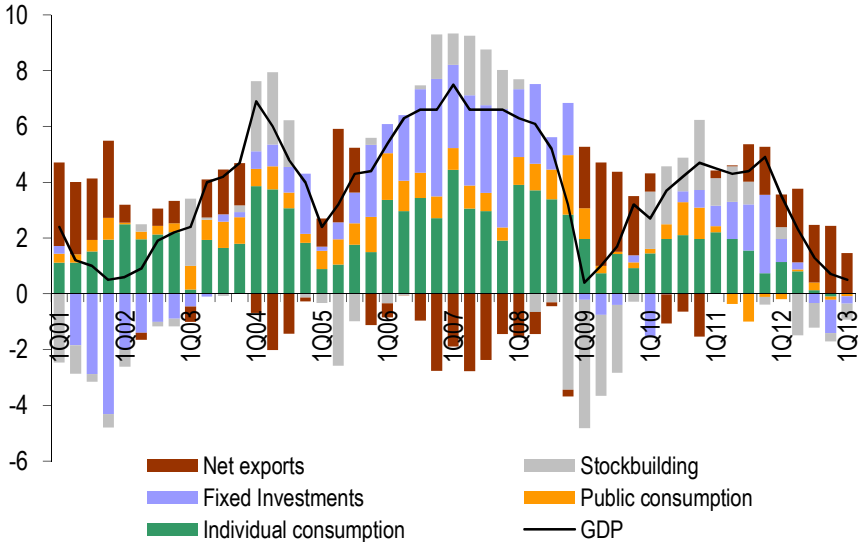
Marcin Luziński +48 22 586 8362

Email: ekonomia@bzwbk.pl

Agnieszka Decewicz +48 22 586 8341

Marcin Sulewski +48 22 586 8342

Breakdown of GDP growth (%YoY)



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