

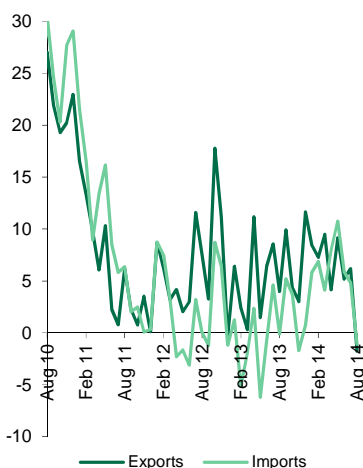
INSTANT COMMENT

14 October 2014

Exports decelerates, money supply accelerates

Both exports and imports decelerated significantly in August. Even if to some extent this was due to the effect of lower number working days, we still find this data disappointing as it seems that these releases are starting to reflect the slowdown in the euro zone. At the same time, data on the money supply for September look quite good and indicate acceleration in deposits and still high pace of loans growth (strong increase in loans for companies). Decent performance of the domestic demand should offset, at least for some time, the negative impact of falling external demand on the Polish economy.

Foreign trade turnover, % YoY



Strong plunge of trade volumes in August

The current account deficit reached -€986mn in August, vs. our forecast at -€841mn and over two times smaller deficit expected by the market. Additionally, July data was revised significantly, to -€681mn from -€175mn. Consequently, the 12-month rolling current account deficit increased to -1.4% of GDP (highest for 9 months), according to our estimates.

This year's biggest monthly current account deficit was largely driven by the significant deterioration in the trade balance (-€62mn) amid noticeable slowdown in both exports and imports and lower balance of secondary income. Pace of exports growth (in euro) decelerated from over 6% YoY to -1.8% YoY in August and imports from 4.8% YoY to -1.1% YoY. This is the weakest export growth since the comparable data is available (since 2011), and when we also take into account data according to old methodology, pace of exports growth is lowest since October 2009. Although one should remember that exports and imports were negatively affected by the one working day less than a year ago (similarly like the industrial output), our forecast took this factor into account and yet the data were disappointing. Apparently, slowdown in the euro zone weighs more and more on the Polish foreign trade. Further decline of an economic activity in Europe (indicated by the falling activity indexes, among others, by today's poor German ZEW index) does not bode well for the reversal of this trend.

Fast growth of credits and deposits

While the August foreign trade data disappointed, September release of the money supply showed a sizeable increase – M3 and deposits accelerated while the credit growth stayed at a decent level. Loans for the households lost steam slightly (to 5.3% YoY from 5.6% YoY) but in our view this was mainly due to stronger zloty at the end of the month that lowered the value of FX loans. Loans for companies recorded a significant increase – annual pace of growth jumped to 9.1% YoY (highest for 2 years) vs. 7.4% YoY in August. This data suggests that domestic demand (consumption and investments) remains a vital engine driving the economy despite the slowdown abroad. There is of course a question how long will this engine will work on the high gear well when the export outlook deteriorates noticeably.

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