

INSTANT COMMENT

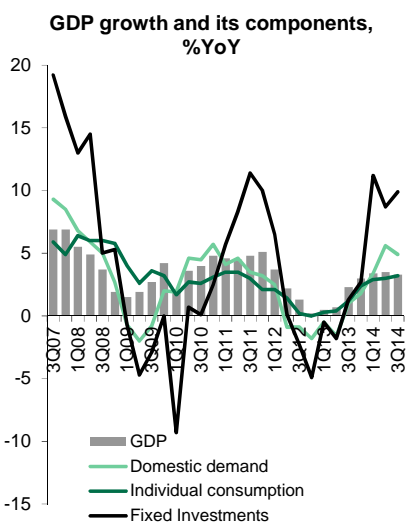
28 November 2014

Solid GDP growth driven by domestic demand

GDP growth in 3Q14 reached 3.3%YoY vs. 3.5%YoY in 2Q, in line with the flash estimate released two weeks ago. Seasonally adjusted growth accelerated to 0.9% from 0.7% in 2Q. As we had suspected, the better-than-forecast growth came mainly from healthy performance of private consumption and investment. The former accelerated in 3Q to 3.2%YoY (fastest rise since 2Q11), and the previous quarters were revised up slightly. Investment growth surprised, accelerating in 3Q to 9.9%YoY, from already decent 8.7%YoY in 2Q. Net exports' contribution to GDP growth was negative and reached -1.6pp (vs -1.9pp in 2Q), while impact of change in inventories was slight (only 0.4pp).

GDP data confirmed strength of domestic demand, which is mitigating the negative impact of slowing external demand on Polish economic growth. Apparently neither entrepreneurs nor consumers got scared of deteriorating business climate abroad; the former keep expanding, probably in anticipation that slowdown in the euro zone will be short-lived, while the latter keep spending money as their purchasing power is rising thanks to booming labour market and falling prices. This may continue for a while, implying that GDP growth in nearest quarters will be probably higher than we earlier assumed. However, domestic demand will not be able to keep economy growing if it is the only engine running. Thus, revival of external demand (from euro zone in particular) is crucial for maintaining GDP growth in the medium run.

Monetary policy wise, the data reduce chances of interest rate cut in December.



GDP growth reached 3.3%YoY in 3Q14, in line with the flash estimate. Private consumption growth accelerated in 3Q to 3.2%YoY (fastest rise since 2Q11), which is interesting given that retail sales growth plummeted in the third quarter, suggesting a slowdown in consumer spending. Moreover, consumption growth for previous quarters has been revised up, and now they are showing that private consumption growth has been quite healthy, near 3%YoY, since the very start of this year.

The second positive surprise was fixed investment growth, which accelerated in 3Q to 9.9%YoY, from 8.7%YoY in 2Q. Apparently, signals of worse economic climate abroad have not discouraged Polish companies from expanding. We have pointed in the past that there were hints that companies' investment activity remains strong – they included performance of the labour market (strong demand for new jobs) and of the credit market (healthy rise of investment loans). On top of private sector investments, it is possible that the public sector also contributed significantly to total fixed investment growth in the third quarter, as the outlays on public works probably intensified before the regional election. According to Eurostat's data already two first quarters of 2014 saw a significant rise in public fixed investment spending. We think that solid investment growth may continue in 4Q14, as according to recent data neither investment loans nor employment showed signs of growth slowdown in October.

Change in inventories had relatively small impact on GDP growth in 3Q14, adding 0.4pp (after 1.5pp contribution in 2Q). Total domestic demand increased 4.9%YoY, after 5.6% in the second quarter.

Export growth has been slowing steadily since the start of the year and in 3Q14 it rose only 3.8%YoY in real terms, at slowest pace since 2Q13. Net exports' contribution to GDP growth was negative and reached -1.6pp (vs -1.9pp in 2Q). If domestic demand remains the main engine of economic growth, the negative contribution of net exports would widen in the coming quarters.

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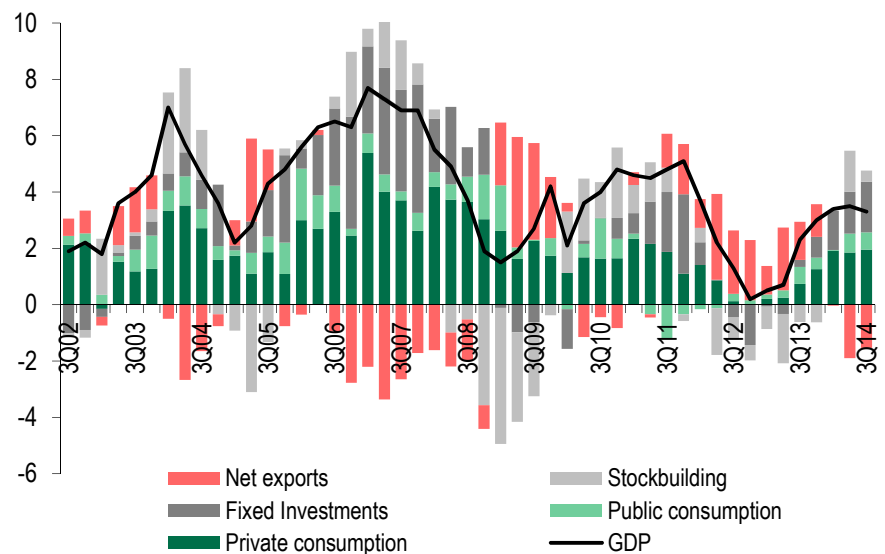
In general, the GDP data confirmed that strength of domestic demand is mitigating the negative impact of slowing external demand on Polish economic growth. Apparently neither entrepreneurs nor consumers got scared of deteriorating business climate abroad; the former keep expanding, probably in anticipation that slowdown in the euro zone will be short-lived, while the latter keep spending money as their purchasing power is rising thanks to booming labour market and falling prices. This may continue for a while, implying that GDP growth in nearest quarters will be probably higher than we earlier assumed. However, domestic demand will not be able to keep economy growing if it is the only engine running. Thus, revival of external demand (from euro zone in particular) is crucial for maintaining decent GDP growth in Poland in the medium run.

GDP growth and its components (%YoY)

	2011	2012	2013	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
GDP	4.8	1.8	1.7	0.5	0.7	2.3	3.0	3.4	3.5	3.3
Domestic demand	3.8	-0.4	0.2	-0.5	-1.6	1.0	1.8	3.4	5.6	4.9
Total consumption	1.7	0.7	1.3	0.4	0.6	1.7	2.4	2.3	3.1	3.3
Individual consumption	3.0	1.0	1.1	0.3	0.4	1.2	2.4	2.9	3.0	3.2
Public consumption	-2.3	0.2	2.1	0.9	1.5	3.5	2.2	0.1	3.7	3.5
Gross accumulation	12.2	-4.3	-3.7	-5.9	-11.0	-1.9	0.4	10.5	18.1	12.0
Gross fixed investment	9.3	-1.5	0.9	-0.5	-1.8	1.3	2.7	11.2	8.7	9.9
Net exports*	0.9	2.2	1.5	1.1	2.4	1.3	1.2	0.0	-1.9	-1.6

* contribution to GDP growth (in pct. points)

Breakdown of GDP growth (%YoY)



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