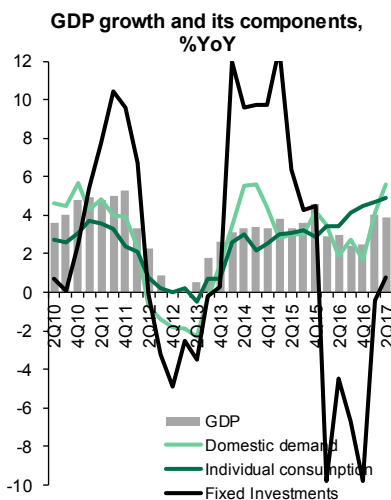


# INSTANT COMMENT

31 August 2017

## Consumption still main engine of GDP growth

Polish GDP growth in 2Q17 was confirmed at 3.9% y/y. The headline figure and the growth breakdown did not surprise. Private consumption remained the main engine of growth, rising by nearly 5% y/y, while investments remained subdued (only 0.8% y/y). Net exports was negative for GDP growth with contribution of -1.5pp, mainly due to significant slowdown of real export growth (to 2.8% y/y from 8.3% y/y in 1Q). The latter seems to be odd given the apparent recovery in the euro zone, Poland's main trading partner but deceleration in German exports could be an explanation. We think that economic growth in Poland should remain decent in the coming quarters, only slightly below 4% y/y. First high-frequency data for 3Q17 suggest that investment activity may be finally gaining momentum, and this factor is likely to be offsetting the gradual deceleration of consumption growth in the coming quarters. We will release our revised GDP forecasts next week in our monthly report MACROscope.



According to Central Statistical Office (GUS), Polish GDP rose by 3.9% y/y in 2Q17 (in line with the flash reading released two weeks ago). The GDP structure was close to the forecasts. Private consumption remained the biggest contributor to GDP growth and increased by 4.9% y/y (the fastest pace since 4Q18). Private consumption was boosted by excellent labour market situation, gradual decrease of unemployment rate and record high level of consumer confidence. Investment rose slightly by 0.8% y/y, increasing for the first time since the end of 2015. The investment growth was neutral for GDP growth, in line with initial comment of Maria Jeznach chief of GUS National Accounts Department. However initial M. Jeznach statement about trade balance impact on the GDP growth was missed. The trade balance contribution to GDP growth was negative and amounted -1.5pp (the smallest since 3Q14). The trade balance deterioration was a consequence of deceleration of export real pace growth. This looks really surprising given the robust economic performance in euro zone that is our bigger trading partner which should support sale of Polish goods abroad. However, if we take a closer look at the data from Western Europe we see that recent months saw a clear deceleration of German exports with which Polish exports is highly correlated (see chart on the next page). Should this trends persist, negative contribution of net exports to Polish GDP growth may hold (particularly given the expected rebound in investments). Rise of inventories added 1.9pp to GDP growth in 2Q and we think it would be difficult to sustain such high contribution in the quarters to come.

In our view, 3Q17 GDP growth should stay close to 4% y/y although the next quarters will show a gradual deceleration rather than further acceleration. Outlook for exports may appear less optimistic that we had assumed so far and the shortage of workforce could become a more serious constrain; additionally, there will be a negative high base effect in 4Q17. The breakdown of growth will also change. We expect an investment revival mainly thanks to higher utilization of EU funds and higher public spending (in 2Q investment spending of local governments rose 25% y/y) which should be followed by reaccelerating corporate activity. At the same time, annual pace of growth of private consumption will moderate as the impact of the child benefit "500+" program will fade. We will release our revised GDP forecasts next week in our monthly report MACROscope.

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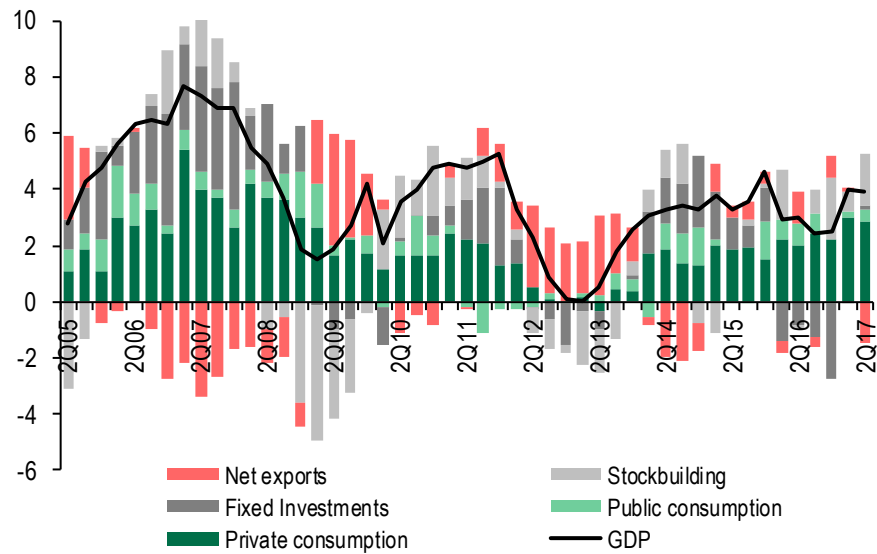
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GDP growth breakdown, % y/y

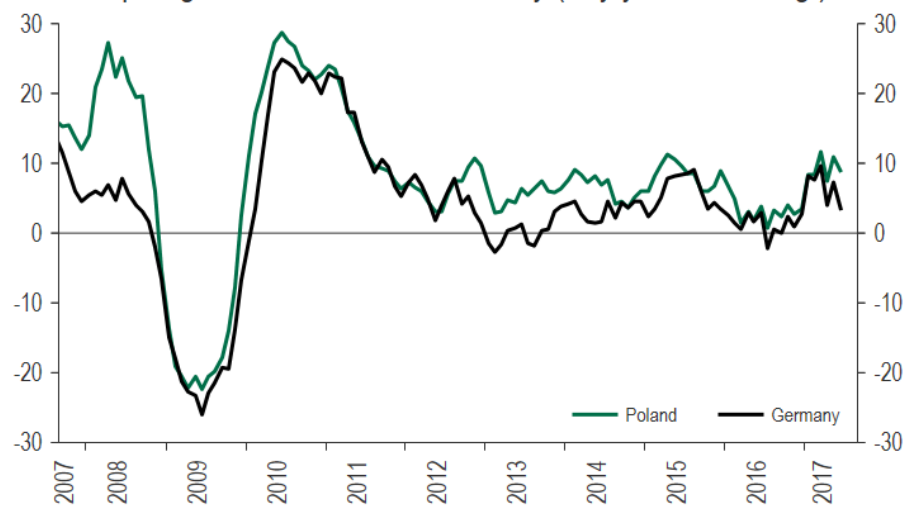


GDP growth and its components (% y/y)

	2014	2015	2016	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
GDP	3.3	3.8	2.7	3.6	4.6	2.9	3.0	2.4	2.5	4.0	3.9
Domestic demand	4.7	3.3	2.4	3.0	4.2	3.5	1.9	2.7	1.7	4.1	5.6
Total consumption	2.8	2.8	3.6	2.4	4.0	3.6	3.5	4.0	3.1	3.9	4.3
Private consumption	2.6	3.0	3.8	3.2	2.9	3.4	3.4	4.1	4.5	4.7	4.9
Public consumption	4.1	2.4	2.8	-0.1	7.2	4.5	4.2	3.8	-0.2	1.0	2.4
Gross accumulation	12.8	4.9	-1.8	5.0	4.8	2.9	-5.0	-2.2	-1.6	5.2	11.5
Fixed investment	10.0	6.1	-7.9	4.3	4.5	-9.8	-4.5	-6.7	-9.8	-0.4	0.8
Net export *	-1.4	0.6	0.3	0.7	0.4	-0.5	1.2	-0.3	0.8	0.1	-1.5

\* contribution to GDP growth (percentage points);

Export growth: Poland vs. Germany (% y/y, 3M mov.avg.)



Source: Thomson Reuters Datastream

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