

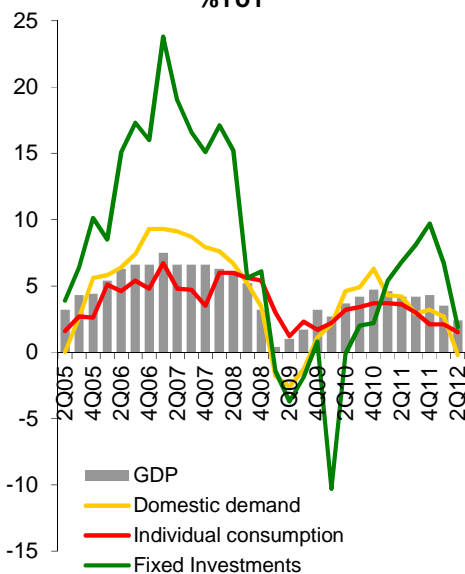
Instant comment

Slowdown deeper than expected

30 August 2012

GDP growth decelerated in 2012Q2 to 2.4%YoY and proved to be weaker even than our, most pessimistic on the market, forecast. This release triggered a further weakening of the zloty and a decline of market rates (FRA by 10bp, WIBOR by 5-7bp, most since June 2009). Consumption growth decelerated more or less in line with expectations, while scale of slowdown in investment was a big surprise. Economic outlook for the upcoming quarters is deteriorating, so it seems that the MPC should not wait with monetary easing and may withdraw from the May's controversial rate hike as early as in September.

GDP growth and its components, %YoY



GDP growth decelerated in 2012Q2 to 2.4%YoY which is the lowest reading since 2009Q3. Data proved to be slightly weaker than our forecast (which was actually the most pessimistic on the market) at 2.6% and considerably lower than market consensus at 2.9%. Domestic demand slowed markedly, showing a decline by 0.2%YoY in Q2 (after an increase by 2.7% in Q1). Growth of individual consumption weakened to 1.5%YoY (from 2.1%YoY in Q1), more or less in line with our expectations. At the same time, pace of growth of fixed investments plunged to 1.9%YoY from 6.7%YoY in Q1. It is worth noting that this deceleration took place during period of preparations to EURO2012, when – as we can suppose – dynamics of infrastructural investments financed from public means was still high. This means that investment activity of private sector may have been limited strongly in Q2. If this is the case, then a slowdown of investments in Q3, when projects due to EURO2012 finished, may be even deeper than we expected, as we used to suppose that effect of halted public investment outlays will be partially offset by moderate pace of growth of private investments. Financial results of companies, which proved to be very weak in Q2, do not bode well for private investments in the upcoming quarters. It is difficult to hope for improvement of companies' results and of investments in the remainder of the year, as most enterprises finance their investments with own means.

Net exports had significant positive contribution to pace of GDP growth in Q2 (2.6pp versus 0.7pp in Q1). Despite slowing exports (due to falling orders from abroad), the trade balance clearly improved amid weaker imports. In Q2 there was even small surplus in foreign trade according to National Accounts. That is similar to situation from 2009, when positive net exports also constrained the scale of GDP slowdown in Poland.

The Q2 2012 GDP data and other information from real economy received recently, suggest that situation in H2 2012 could be much worse than we assumed earlier. Deputy head of the CSO Halina Dmochowska said that the Polish economy will likely slow down further in coming quarters and the pace of growth will be below the rate recorded in Q2. In our opinion, it is likely that in Q3 2012 economic activity will slow below 2% (some rebound in July's reading of retail sales and industrial output will be offset by weak data in next two months of Q3). It means the necessity to revise earlier forecast of GDP for 2012 and 2013. Revised predictions will be published in upcoming monthly report.

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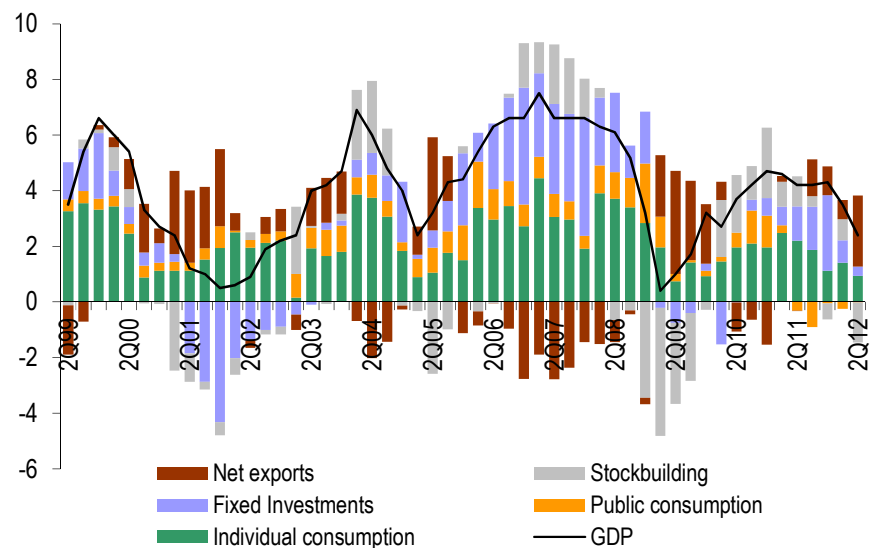
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Data on GDP may be clearly disappointing for the MPC. Marek Belka said this week that according to NBP's analysts, the pace of GDP reached 2.9%YoY in Q2. Let us remind, that in May (just in the middle of the quarter when the domestic demand contracted!) the Council increased interest rates by 25pbs arguing the outlook for Polish economy is more optimistic than the majority of analysts assume. Currently we see clearly that it has been a procyclical policy. Elżbieta Chojna-Duch said after today's release that discussion on rate cuts is even more justified. Still, crucial will be opinion of other MPC members who had been against loosening of monetary policy until recently. In our view and regarding more and more obvious signals from the economy the MPC should reverse the unnecessary rate hike and start the cycle of rate cuts. There is a question whether the MPC will have enough courage to begin the cycle in September. If not, one should expect a rate cut in October

Breakdown of annual GDP growth (%YoY)



GDP growth and its components (%YoY)

	2008	2009	2010	2011	2Q11	3Q11	4Q11	1Q12	2Q12
GDP	5.1	1.6	3.9	4.3	4.2	4.2	4.3	3.5	2.4
Domestic demand	5.6	-1.1	4.6	3.6	4.2	2.9	3.2	2.7	-0.2
Total consumption	6.1	2.0	3.4	2.1	2.4	1.2	1.5	1.3	1.1
Individual consumption	5.7	2.1	3.2	3.1	3.6	3.0	2.1	2.1	1.5
Public consumption	7.4	2.1	4.1	-1.3	-1.7	-4.9	-0.3	-1.3	-0.1
Gross accumulation	4.0	-11.5	9.3	9.6	12.0	9.6	7.2	11.6	-5.4
Gross fixed investment	9.6	-1.2	-0.4	8.1	6.8	8.1	9.7	6.7	1.9
Net exports	-0.6	2.7	-0.7	0.7	0.0	1.3	1.0	0.7	2.6

* contribution to GDP growth (in pct. points)

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