

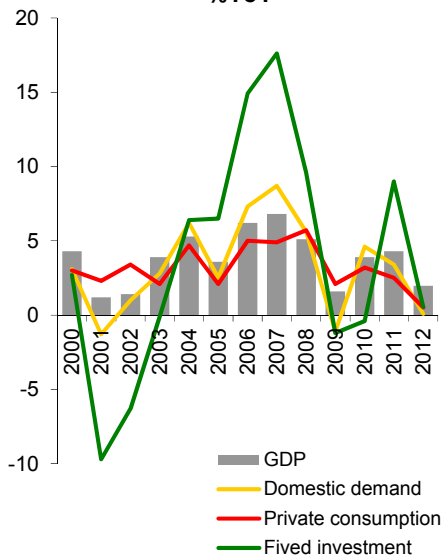
# Instant comment

## GDP not that bad, consumption very weak

29 January 2013

GDP growth in 2012 amounted to 2.0% with consumption rising by 0.5% and investments by 0.6%. The data indicate that Polish economic growth decelerated in Q4 to ca. 1%YoY. Even though investments contracted in Q4 less considerably than we feared (only by 0.4%YoY), the decline of consumer demand in at the end of the year (-1%YoY) is a major disappointment and it may herald a lower consumption path in the upcoming quarters. We are still expecting that economic cycle will bottom out in 1Q2013 and we will see some gradual recovery later in the year, with no inflationary threats. Although the GDP data were better than we expected, their general message is dovish due to really weak consumption. Data are justifying two further cuts in February and March and possibly a continuation of cycle, depending on results of new NBP projection.

**Growth of GDP and components, %YoY**



According to preliminary data released by the CSO the pace of GDP growth in 2012 reached 2.0%. This result is close to market consensus and above our forecasts (1.8%). The domestic demand increased by a mere 0.1% compared to 2011 and this means that economic growth was driven nearly entirely by narrowing Poland's external imbalance (change in net exports). This was probably more the result of lower imports than higher exports (unfortunately, the CSO did not provide relevant figures today). The private consumption increased by 0.5% and investments by 0.6%.

Based on data for the entire year, we estimate that GDP growth in Q4 decelerated to ca. 1%YoY (from 1.4%YoY in Q3), i.e. less considerably than we feared. Still, a negative surprise was delivered by a really poor result of consumer demand. We estimated that individual consumption plunged by ca. 1%YoY in Q4 and this was the first quarter since mid-nineties (i.e. since quarterly GDP data are available), when annual pace of consumption growth slid below zero. On the other hand, investments surprised on the upside, as they contracted by only ca. -0.5%YoY (versus -1.5%YoY in Q3), even despite high base effect from 2011. Worries about deeper decline of inventories also did not materialise. Contribution of net exports to GDP growth in Q4 was, according to our estimates, still positive, but slightly lower than in the previous quarter.

### GDP growth and its components (%YoY)

	2009	2010	2011	2012	4Q11	1Q12	2Q12	3Q12	4Q12
GDP	1.6	3.9	4.3	2.0	4.6	3.6	2.3	1.4	1.0**
Domestic demand	-1.1	4.6	3.4	0.1	2.9	2.5	-0.4	-0.7	-0.7**
Total consumption	2.0	3.4	1.5	0.4	0.9	1.2	1.0	0.1	-0.7**
Individual consumption	2.1	3.2	2.5	0.5	1.4	1.7	1.2	0.1	-1.0**
Public consumption	2.1	4.1	-1.7	0.0**	-0.6	-0.8	0.5	0.2	0.2**
Gross accumulation	-11.5	9.3	10.5	-1.0	7.9	10.9	-5.9	-3.7	-0.8**
Gross fixed investment	-1.2	-0.4	9.0	0.6	10.4	6.0	1.3	-1.5	-0.4**
Net exports	2.7	-0.7	0.9	1.9**	1.6	1.1	2.7	2.1	1.7**

\* contribution to GDP growth (in pct. points) \*\* own estimates

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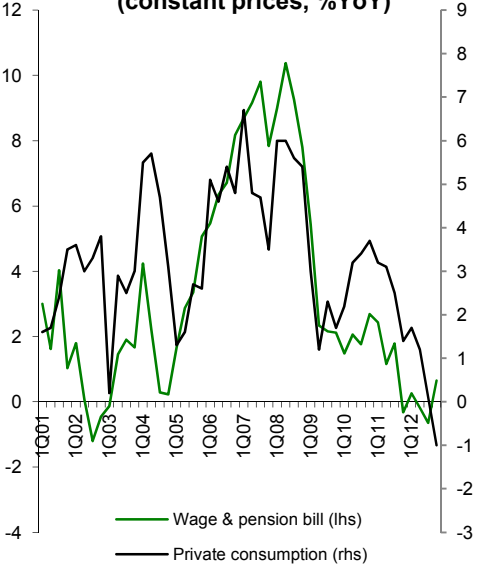
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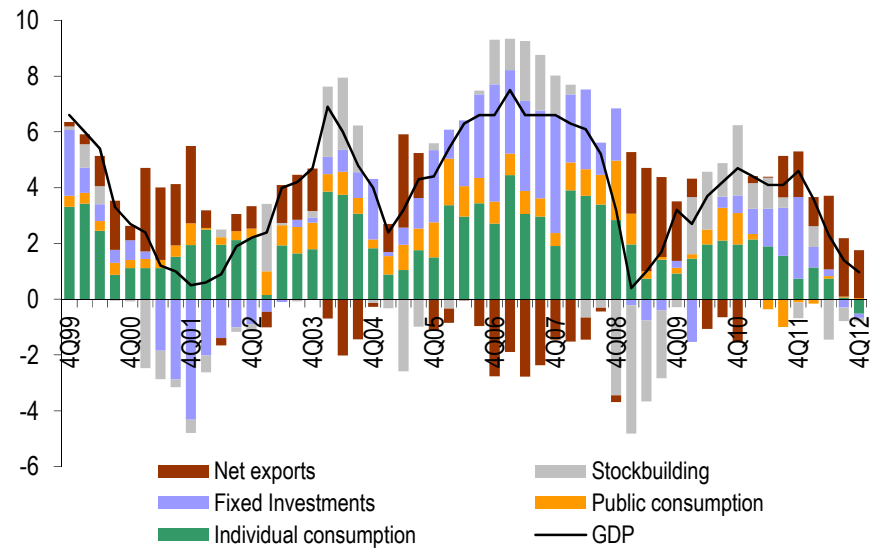
**Consumption vs. income (constant prices, %YoY)**



Deep contraction of consumer demand in the last two quarters of 2012 suggests that after considerable decline of savings rate of households during past two years, in H2 of 2012 the process of rebuilding savings has started. If this is continued, then even if real income rebounds in coming quarters (due to lower inflation, increase of pensions, and some increase of wages in H2), then pace of growth of consumption may be subdued. Data on nonfinancial accounts in 3Q already showed some improvement of savings rate.

We still think that we will see a bottom of economic cycle in Q1, with GDP growth below 1%, or even close to zero. Following quarters should bring a gradual recovery, mainly thanks to exports. Foreign trade balance will positively affect the economic growth not only thanks to rising exports (this prediction is supported by recent data from the German economy), but also due to weakness of domestic demand, which will negatively influence imports. Such a development of domestic demand was clearly visible in data on consumption in Q4 and we see a downward risk for our forecast of consumption growth in 2013 (above 1%). On the other hand, a positive surprise in investments in Q4 makes us hope that their decline will not be deep in 2013. All in all, as we maintain our forecast of pace of economic growth at just above 1% for this year, but the breakdown of growth may slightly differ from our initial expectations. Our detailed forecasts will be presented soon in the monthly report. As regards the outlook for inflation and the monetary policy (and the interest rate market) it seems that the fact that private consumption contracted so much may be more important than the fact that the GDP expanded by ca. 1% in Q4. Thus, today's reaction of interest rate market (yields increased by few basis points at the short end) may be exaggerated. We even think that after today's data there is room for more, not for less interest rate cuts. We still expect two rate cuts by 25bps in February and March. In Q2 there may be one or two more, depending on the outcome of the March inflation projection.

**Breakdown of GDP growth (%YoY)**



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