

Instant comment

Economy has bottomed out

30 August 2013

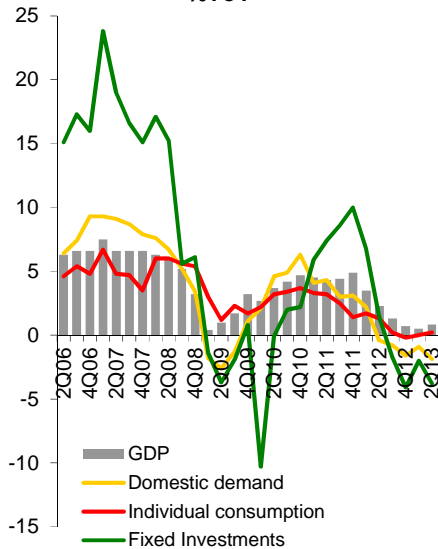
GDP growth amounted to 0.8%YoY in Q2, confirming that the economy has bottomed out, after reaching the trough of economic cycle at the beginning of the year. As expected, investments were still in decline, while consumption stagnated. Today's data support our scenario of gradual economic recovery, generated mostly by exports. At the same time, we can have some hope for a revival in domestic demand, which is shown by first data for Q3. We see even some chances that GDP growth will be visibly above 1% in Q3 and above 2% in Q4.

The GDP growth rate in Q2 was in line with earlier flash (experimental) CSO release and amounted to 0.8%YoY. The reading was in line with our forecasts and market expectations, and did not affect the trade.

Breakdown of economic growth showed a continued strong weakness of domestic demand – decline by 1.9%YoY, i.e. deeper than in last four quarters. This was due to stronger decline of investments (-3.8% as compared to our forecast at -5.0% and consensus at -3.2%) and drop in inventories (negative contribution to GDP of 2pp.) In this context it is worth to remind that CSO data from big enterprises showed a positive nominal growth rate of fixed investments in the first half of the year. Clearly these tendencies did not find their way through smaller companies. The second key element of the domestic demand – individual consumption – posted a paltry recovery (increase by 0.2%YoY, slightly below our forecast and consensus). This was a fourth quarter in a row, when growth of consumption was idle (deviations from zero not far from statistical error). Similarly as in previous quarters, the economy was advancing (and even somewhat accelerating) on the back of net exports (according to the CSO this element contributed 2.5pp to the GDP growth, but our estimates show even 2.7pp). Real growth of exports of goods and services amounted to 5.1% (the highest pace for 1.5 year), while imports declined.

In general, data on 2Q GDP fit our scenario presented already some time ago assuming gradual rebound of the economy (from the bottom reached in 1Q) driven mainly by exports. Scenario of recession in Poland seems to be now quite out-of-date – quarterly pace of economic growth (after seasonal adjustment) reached 0.4% (vs. 0.2% in 1Q). Tendencies observed at the beginning of 3Q are also in line with our forecasts – domestic demand seems to be recovering (retail sales, income from indirect taxes) and exports continues to perform decently (industrial output, PMI, new orders). If the latter get even stronger thanks to improvement of economic situation in our main trading partners and have some positive impact on the domestic labour market, then we can say the revival is getting firmer. We see upward risk to our GDP forecasts for coming quarters – in 3Q economy may expand clearly more than 1% and in 4Q pace of growth may even be above 2%. Our fresh forecasts will be presented in monthly report released in the first half of September. Government's budget assumptions for the next year (GDP growth at 2.5%) are realistic in our opinion, though it would be difficult see an increase of domestic demand as high as forecasted by the Ministry of Finance (2.7%) and this may be reflected in growth of budget revenues.

GDP growth and its components, %YoY



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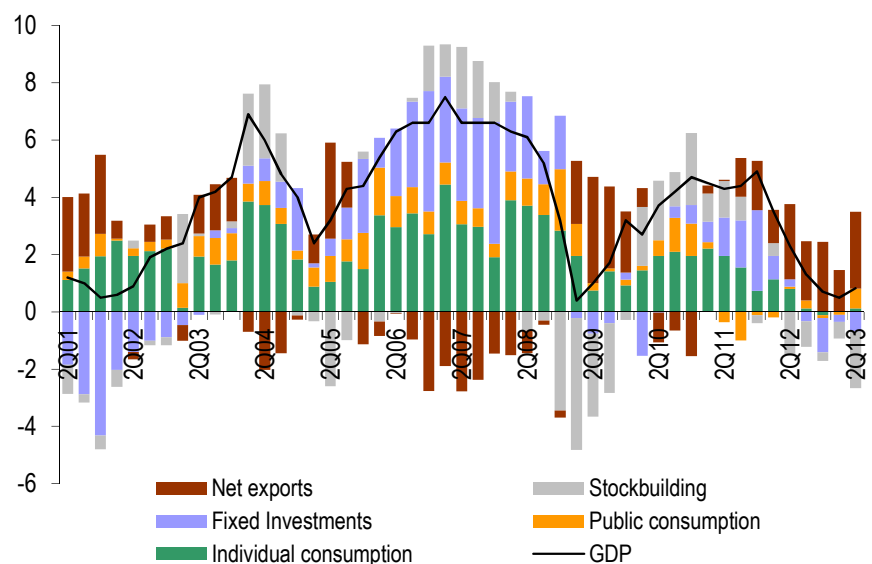
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GDP growth and its components (%YoY)

	2010	2011	2012	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
GDP	3.9	4.5	1.9	3.5	2.3	1.3	0.7	0.5	0.8
Domestic demand	4.6	3.6	-0.2	2.2	-0.4	-0.8	-1.6	-0.9	-1.9
Total consumption	3.4	1.6	0.6	1.1	1.1	0.5	-0.3	-0.1	1.0
Individual consumption	3.2	2.6	0.8	1.7	1.3	0.2	-0.2	0.0	0.2
Public consumption	4.1	-1.7	0.0	-1.0	0.4	1.6	-0.6	-0.5	3.9
Gross accumulation	9.3	11.2	-3.3	9.2	-6.0	-5.7	-4.9	-5.8	-14.0
Gross fixed investment	-0.4	7.7	-0.8	6.8	1.4	-1.7	-4.1	-2.0	-3.8
Net exports*	-0.7	0.9	2.1	1.2	2.7	2.1	2.4	1.4	2.5

* contribution to GDP growth (in pct. points)

Breakdown of GDP growth (%YoY)



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