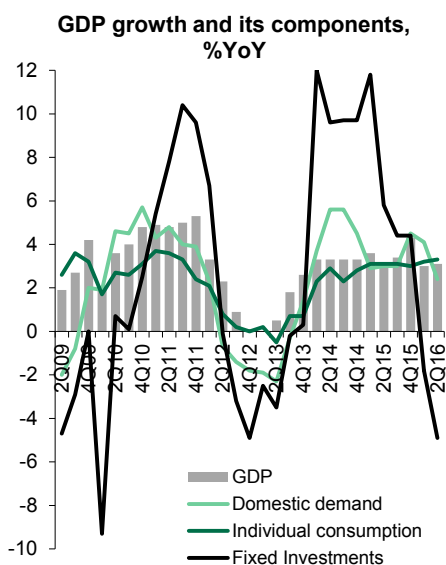


INSTANT COMMENT

30 August 2016

Investment disappointed but export was strong in Q2

GDP growth in 2Q16 amounted to 3.1% y/y (slightly up from 3.0% in Q1), in line with flash estimate. Seasonally adjusted GDP rose by 0.9% q/q and 3.1% y/y. Economic growth was driven mainly by private consumption (contribution of 2pp) and net exports (0.8pp). The positive surprise was connected with exports, which increased in real terms by 10.9% y/y, the highest rate in last five years. On the other hand, fixed investments disappointed, falling at the fastest pace since 4Q12 – by almost 5% y/y, which was below the lowest market forecast). Overall, GDP data did not change our assessment of the outlook for the Polish economy. Consumption is very likely to accelerate further in the second half of the year. However, on the other hand, positive impact of net exports might be hard to maintain, as in our view export will decelerate (while imports might accelerate). We do not change our forecasts for GDP growth or c3% in the second half of the year and 2016 as a whole.



GDP growth amounted to 3.1% y/y in 2Q2016, in line with the flash estimate and versus 3.0% y/y in 1Q2016. After seasonal adjustment, GDP climbed by 0.9% q/q and 3.1% y/y. The economic growth was generated mainly by private consumption (which added 2.0 pp to GDP growth) and net exports (positive contribution of 0.8 pp). Growth of consumption was slightly below our forecast. Investments proved to be the biggest negative surprise of today's data, as they fell by 4.9% y/y (below the lowest market forecast) – by most since 4Q12. Exports delivered a positive surprise and rose by as much as 10.9% y/y in real terms – the fastest pace in five years (contribution of exports to GDP amounted to 5.5pp, most for 6 years, with a negative contribution of imports at 4.7 pp).

Private consumption expanded by 3.3% y/y and 0.6% q/q after seasonal adjustment. In line with our forecasts, consumer demand rose at a stable pace, supported by solid labour income and high consumer confidence. However, a marked acceleration of consumption may take place in Q3, when effect of 500+ child benefit programme will be fully visible. We expect consumption to advance by more than 4% y/y in the forthcoming quarters.

Fixed investments fell by 4.9% y/y (and 1.2% q/q seasonally adjusted). The fall was deeper than our estimate (-0.5% y/y) and below the lowest market forecast. We do not know yet what was the breakdown of investment into private and public sector. However, the recently published data for the first quarter showed that in this period private investments fell, while public investments moderately increased. Though public investments were supported by (possibly one-off) increase in military sector, data from local governments showed a deep fall in investment in both Q1 and Q2 (by c50% y/y). Also, data from big companies (employing 50 and more people) showed the decrease in fixed investments by 6% y/y in 2Q16. Overall, it seems that in the second quarter we had a continuation of negative trends regards investments in both public and private sectors. Investments are negatively affected by: a slow start of money spending from the new UE financial framework, a possible deterioration regarding decision-taking process in public administration after post-election changes, as well as lower business confidence. First pieces of information for the third quarter are not encouraging either, as construction output has continued a free fall in July. We expect the growth rate of investments to improve in the second half of the year, but it is a big question mark if it turns positive by the year-end.

Interestingly, the data showed still high contribution of inventories change to the economic growth – it was 0.5pp in 2Q16 vs. 1.3pp in 1Q16. Inventories change is usually negatively correlated with net exports. We do not exclude that rising inventories may have resulted from falling investment as firms were accumulating unsold investment goods. Production in

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manufacturing of machinery and equipment or other non-metallic mineral products was rising in the second quarter, despite falling investments. We expect that contribution of inventories to GDP growth in the second half of the year will be smaller than in the first two quarters.

Export of goods and services climbed in 2Q16 by 10.9% y/y in real terms (by 4.1% q/q after seasonal adjustment) and import by 9.9% y/y (2.5% q/q after seasonal adjustment). Surprisingly, deflator of export was low (near zero), despite a significant change of PLN exchange rate in annual terms, visible also in NBP data on foreign trade (in EUR and PLN terms). Export accelerated visibly versus 1Q (6.9% y/y). In our view, in the following quarters the contribution of net export will be negative, similarly as in 1Q, due to possible deceleration of exports and acceleration of import.

We expect GDP growth to stabilize near 3% y/y in the coming quarters. Private consumption growth is likely to accelerate, investments will probably keep falling (although at slower pace), while change of inventories and net exports will add less to GDP growth than they did in the second quarter. We also keep our GDP forecast for 2017 unchanged (at 2.9%). Although investment growth should start accelerating next year (faster inflow of EU money), but impact of 500+ programme on private consumption will dissipate. At the same time, possible economic slowdown in the euro zone (including Germany) and in the UK will not be favourable for Polish exports.

GDP growth and its components (%YoY)

	2013	2014	2015	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
GDP	1.3	3.3	3.6	3.3	3.6	3.1	3.4	4.3	3.0	3.1
Domestic demand	-0.7	4.9	3.4	4.5	2.9	3.0	3.0	4.5	4.1	2.4
Total consumption	0.7	2.9	3.1	3.8	2.8	2.5	2.6	4.5	3.4	3.5
Private consumption	0.2	2.6	3.1	2.8	3.1	3.1	3.1	3.0	3.2	3.3
Public consumption	2.2	4.7	3.4	7.2	1.8	0.8	0.9	8.7	4.4	4.4
Gross accumulation	-5.8	12.8	4.5	6.5	3.4	4.9	4.8	4.5	8.1	-2.3
Fixed investment	-1.1	10.0	5.8	9.7	11.8	5.8	4.4	4.4	-1.8	-4.9
Net export *	2.0	-1.5	0.3	-1.2	0.8	0.2	0.4	-0.1	-0.9	0.8

* contribution to GDP growth (percentage points);

GDP growth and its main components (% YoY)

