INSTANT COMMENT

30 November 2016

Weak GDP data, 4Q closer to 1% than 2% y/y

In 3Q2016 GDP growth slowed to 2.5% y/y from 3.1% in 2Q, in line with flash estimates. However, the breakdown was disappointing: private consumption rose by 3.9% y/y showing that impact of 500+ child benefit program is less considerable than expected, while investment plunged by 7.7% y/y (by most since 2010). Data on investment may suggest a deterioration in the private sector (slowdown in investment was mostly driven by weak public sector in 1H).

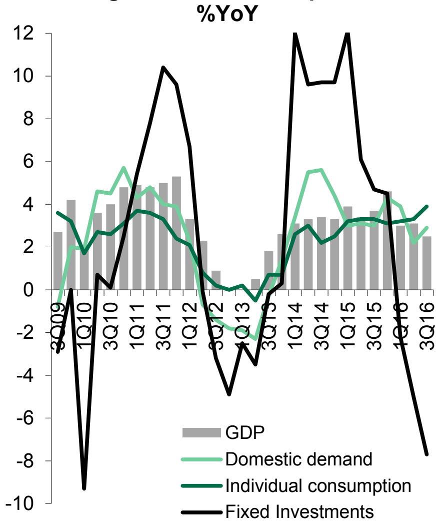
After the flash Q3 figure release we suggested that the final quarter of the year will show GDP of growth below 2% y/y. Given the growth breakdown (as well as revisions for previous quarters), it looks like 4Q2016 might be closer to 1% than 2% y/y. This would be a very disappointing reading, bringing the full year growth to below 2.5%. We expect a further wave of downward GDP forecasts revisions. We think the MPC will continue to see the slowdown as a temporary phenomenon and would not react with monetary policy easing. Still, market participants may re-start to price this in. From this point of view, next week comments after the MPC meeting will be crucial.

GDP growth slowdown may continue in 4Q

In 3Q2016, GDP growth slowed to 2.5% y/y from 3.1% y/y in 2Q, in line with the flash estimate. Seasonally adjusted data showed an increase by 0.2% q/q versus 0.8% q/q in 2Q and by 2.2% y/y versus 3.1% y/y in 2Q.

Private consumption accelerated to 3.9% y/y from 3.3% in 2Q and contributed 2.3 percentage points to the GDP growth. The impact of 500+ child benefit programme was positive, yet less considerable than expected earlier. In our view, private consumption will grow by about 4% y/y in the quarters to come (above 4% at the turn of the year), supported by higher social transfers and still positive labour market situation.

GDP growth and its components, %YoY



Investment plunged by as much as 7.7% y/y, by most since 2010. We do not know the breakdown into public and private investment yet, but numbers from local governments showed that investment in this sector 'improved' to -37% y/y from -52% in 2Q. Moreover, data from the biggest companies (employing over 50 people) showed deepening of investment drop in 3Q. This suggests that private investment may have fallen deeper than in previous quarters, but we have to wait for detailed data for confirmation. In general, the slump in investment is deeper and may last longer than expected earlier. Net exports deducted 0.4 percentage points from the GDP growth, as exports expanded by 6.8% y/y and imports by 7.8% y/y. Polish foreign trade was supported by the weaker zloty, but generally export is weakening due to negative tendencies abroad (stagnation in global international trade). We expect this trend to hold, especially in the final quarter of this year. Additionally, data revision on GDP growth in 2015 show a higher base in 4Q2015 (4.6% y/y instead of 4.3% y/y released earlier) mostly in terms of trade balances. This will put an additional pressure on growth in 4Q2016.

Stockbuilding added 1.1 percentage points to GDP growth in the third quarter of the year, as companies failed to sell their output. It is hard to expect the same in the fourth quarter.

As regards the supply side, value added rose by 2.4% y/y. Value added in construction fell by 16.5% y/y and this was the weakest result since comparable data are available. Value added in industry rose by 3.6% y/y. In our view, performance of both sectors will deteriorate in 4Q. Data for October showed the annual decrease in industrial production, the same is likely to happen in December (working day effect will not help), while in the meatime November's figure would be just a notch above zero, according to our forecast. This is in line with exports slowdown.

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In mid-November, after the flash 3Q figure release, we suggested that the final quareter of the year will show GDP of growth below 2% y/y. Given the detailed growth breakdown (as well as revisions for previous quarters), it looks like 4Q2016 might be rather closer to 1% than 2%YoY. This would be a very dissapointing reading, bringing the full year growth to below 2.5%. We expect a further wave of downward GDP forecasts revisions.

As regards 2017 GDP growth, it looks like there is a chance for V-shaped recovery, assuming that fixed investments (mostly connected with EU funds) will show a significant recovery. However, the GDP growth rate for the next year as a whole should maintain below 3% (even if 4Q17 might be above). This was our forecast since mid-2016 (though with a different quarterly profile) and we think that market consensus is likely to converge to sub-3% growth rate forecast soon. We will publish the detailed scenario for the next year in our Outlook 2017 in the middle of December.

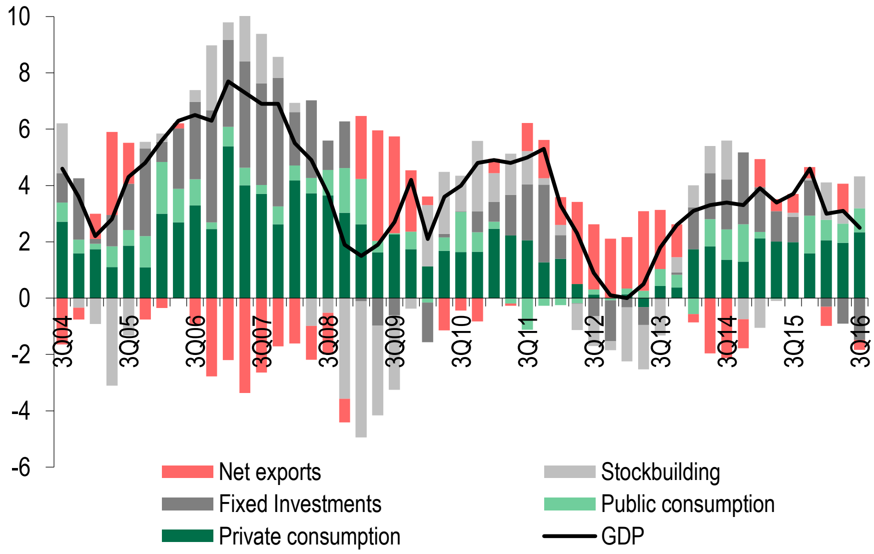
We think the MPC will continue to see the slowdown as a temporary phenomenon and would not react with monetary policy easing. Still, market participants may re-start to price-in this possibility. A few months ago, we noticed a discussion whether sub-3% GDP growth is a threshold for the MPC act, so sub-2% (hopefully, not sub-1%) GDP might be well another reason to build the same story. From this point of view, next week comments after the MPC meeting (decision announced on 7th December) will be crucial.

GDP growth and its components (% y/y)

	2014	2015	*2016F*	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	*4Q16F*
GDP	3.3	3.9	*2.4*	3.9	3.4	3.7	4.6	3.0	3.1	2.5	*1.2*
Domestic demand	4.7	3.4	*2.6*	3.0	3.1	3.0	4.3	3.9	2.2	2.9	*1.6*
Total consumption	2.8	3.0	*3.4*	2.8	2.5	2.5	4.1	3.3	3.4	4.1	*3.0*
Private consumption	2.6	3.2	*3.7*	3.2	3.3	3.3	3.1	3.2	3.3	3.9	*4.4*
Public consumption	4.9	3.5	*2.9*	1.3	-0.2	-0.2	7.1	4.2	3.9	4.9	*-0.5*
Gross accumulation	12.8	4.9	*-0.6*	3.9	5.5	5.3	4.7	7.6	-2.8	-1.7	*-1.9*
Fixed investment	10.0	6.1	*-5.2*	12.1	6.1	4.7	4.5	-2.2	-5.0	-7.7	*-5.0*
Net export *	-1.3	0.6	*-0.1*	1.0	0.4	0.7	0.4	-0.7	1.0	-0.4	*-0.3*

* contribution to GDP growth (percentage points);

GDP growth and its main components (% YoY)



Deflation has ended, but still no signs of price pressure

According to the flash reading, the CPI inflation rose in November to 0.0% y/y, ending the 28-month period of deflation in Poland. It was caused mainly by statistical base effects (prices of food and fuels that earlier dragged CPI down are no longer falling), but we still don't see any signals of building underlying pressure on prices. CPI may inch slightly above zero in December, and in January it may jump to nearly 1% y/y due to even stronger base effects and one-off price hikes in some categories (electricity, household maintenance). However, we do not expect to see a sharp upward trend in CPI in the following months, but rather a slow increase towards 1.5% y/y at the end of 2017.

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