Bank Zachodni WBK
Grupa Santander

INSTANT COMMENT

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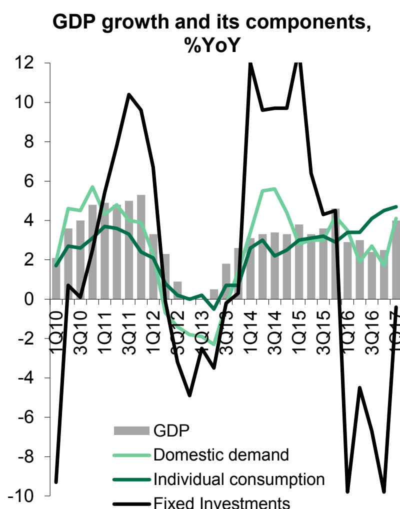
Investments continued to decline in 1Q17

GDP growth rate in 1Q17 was 4.0% y/y, in line with the flash reading. Seasonally-adjusted GDP increased by 1.1% q/q. The structure of growth was rather disappointing, especially with regard to investments, which fell by 0.4% y/y, despite a very low base last year (down by 9.8% y/y in 1Q16). Such a weak reading means there is need to revise down the path of investment growth for this year. Inventories added 0.7pp, which is relatively high, especially given the fact that they also grew last year. Private consumption rose 4.7% y/y, the fastest pace since 2008 and remained the main driver of economic growth. We expect private consumption to remain robust later in 2017 while some slowdown could be recorded only in 2H due to the high base effect from end-2016. The supply side of the GDP growth also disappoints. The gross value added rose 3.7% y/y contributing 3.3pp to the headline figure. This means that 0.7pp in the 4% GDP growth was added by "taxes less subsidies". We think that the relatively weak structure of growth in 1Q17, especially when it comes to investments, high input from inventory changes and taxes, is an argument for a critical look at the forecasts for the quarters to come. While we do not see a strong need for downward revisions, we find it hard to assume that the 2017 growth could beat 4%. The GDP data provide reasons for the MPC to stick to its 'wait-and-see' approach.



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The structure of growth was rather disappointing, especially with regard to investments, which fell by 0.4% y/y, despite a very low base last year (down by 9.8% y/y in 1Q16). Seasonally adjusted investments increased by only 0.3% q/q. It means that at the beginning of the year we did not see a true, respectable recovery in investment. This is consistent with earlier data on investment outlays by local governments and companies employing at least 50 people. Such a weak reading means there is need to revise down the path of investment growth for this year. Nevertheless, we still believe that next quarters should show a rebound in investment activity, especially given the good data on the number of signed contracts using EU funds. Significant improvement in construction and assembly output in 1Q17 suggests that the weakness of the investment was primarily generated by the machinery and equipment expenditures. Inventories added 0.7pp, which is relatively high, especially given the fact that they also grew last year. It is worth pointing out that in the longer term, the inventories' contribution to growth is close to zero, so it may be expected that in the next few quarters they will begin to decline and slow down GDP growth.

Private consumption rose 4.7% y/y, the fastest pace since 2008 and remained the main driver of economic growth (it added 3pp to the headline figure). Consumer demand is being supported by the solid labour market and "500+" child benefit program. We expect private consumption to remain robust later in 2017 while some slowdown could be recorded only in 2H due to the high base effect from end-2016. Public consumption rose 1.0% y/y. Exports rose 8.3% y/y and imports 8.7% y/y. Next exports added 0.1pp to the GDP growth.

The supply side of the GDP growth also disappoints. The gross value added rose 3.7% y/y contributing 3.3pp to the headline figure. This means that 0.7pp in the 4% GDP growth was added by "taxes less subsidies". VAT revenues performed well in 1Q17 thanks to regulatory changes and refunds being accelerated in late 2016 – so this chunk of the registered economic growth does not express an acceleration in economic activity. What is more from the supply side, the value added in industry increased by 7.2% y/y, which is the strongest result since 4Q11 (and the contribution of this category to the overall economic growth was a whole 1.8pp).

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The construction sector showed a growth rate of 4.6% y/y against -9.6% y/y previously and this is the first positive growth since 4Q15. Transport already looked very strong in 4Q16 with 10.1% y/y growth of the value added (the strongest pace since 2011), but 1Q17 was even stronger at 13.3% y/y. Value added by trade grew by 6.4% y/y (so faster than the 5.9% recorded previously) and added 1.1pp to economic growth. On the other hand, the base effect made the value added in financial and insurance sector drop by 17.1% y/y which is the worst result since 2012.

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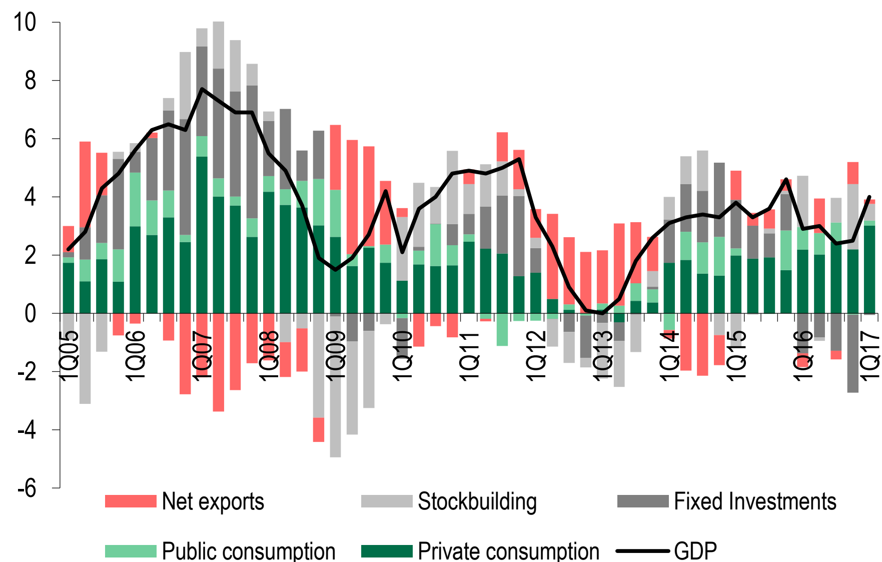
GDP growth breakdown, % y/y



GDP growth and its components (% y/y)

	2014	2015	2016	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
GDP	3.3	3.8	2.7	3.3	3.6	4.6	2.9	3.0	2.4	2.5	4.0
Domestic demand	4.7	3.3	2.4	3.0	3.0	4.2	3.5	1.9	2.7	1.7	4.1
Total consumption	2.8	2.8	3.6	2.3	2.4	4.0	3.6	3.5	4.0	3.1	3.9
Private consumption	2.6	3.0	3.8	3.1	3.2	2.9	3.4	3.4	4.1	4.5	4.7
Public consumption	4.1	2.4	2.8	0.0	-0.1	7.2	4.5	4.2	3.8	-0.2	1.0
Gross accumulation	12.8	4.9	-1.8	5.9	5.0	4.8	2.9	-5.0	-2.2	-1.6	5.2
Fixed investment	10.0	6.1	-7.9	6.4	4.3	4.5	-9.8	-4.5	-6.7	-9.8	-0.4
Net export *	-1.4	0.6	0.3	0.4	0.7	0.4	-0.5	1.2	-0.3	0.8	0.1

* contribution to GDP growth (percentage points); ** BZ WBK estimate

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