

ECONOMIC COMMENT

16 July 2018

Growth in foreign trade remained lackluster

In May, the current account balance showed +€42mn, while we feared a deficit higher than €500mn (versus consensus at -€153mn). Imports surprised to the negative side and rose by a mere 1.7% y/y, as compared to our forecast at 2.4% y/y. Exports advanced by 2.7% y/y. Deceleration versus April was mostly due to calendar effects. The May rebound in economic activity in Germany, after a streak of disappointing data readings, as well as Polish stat office's data on foreign trade supported an improvement in Polish exports, but it seems we have to wait a bit longer to see it. The NBP has also shown core inflation in June. This measure climbed to 0.6% y/y from 0.5% y/y.

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Disappointing imports in May

Current account balance reached +€42m in May, which was well above the market consensus (€-153m) and our forecast (-€563m). Import surprised on the negative side, rising by only 1.7% y/y, vs our estimate of 2.4% y/y. Export rose by 2.7% y/y, slightly above our forecasts, but below market consensus. As a result, the trade balance in goods reached a slight surplus (+€98m). The deceleration from April, when export rose by 8.9% y/y and import by 11.1%, was a result of calendar effects. It was the first time this year that the y/y pace of growth of import was lower than the export growth. On the services balance, we also observed deceleration of imports in May (from 6.8% y/y to 1.8% y/y).

May recovery of German economic activity after a set of disappointing releases gave hope for a pick-up in Polish exports, but it seems we have to wait for the next publications to see it. Also the stat office data released last week suggested higher exports reading. The central bank's comment about today's release mentioned sales of computers, refinery products, trucks and tobacco products as growing at the fastest pace. Poor imports was accompanied by solid growth – as reported by the NBP – in oil and coal bill (and amid high demand for autos). Strong internal demand is hinting that imports should revive later in the year and May slowdown was a one-off.

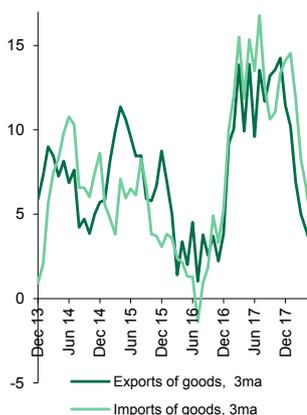
It appears that the 2Q trade balance of goods and services will be higher than in 1Q but still below 2Q17 result. As a consequence, in 2Q the net exports may deduct less from headline GDP growth than -1.2pp recorded in 1Q.

12-month rolling C/A balance amounted to -0.2% of GDP, similarly to ratio recorded in the previous three months. In our view, the C/A deficit could rise to 0.7% of GDP in the remainder of the year.

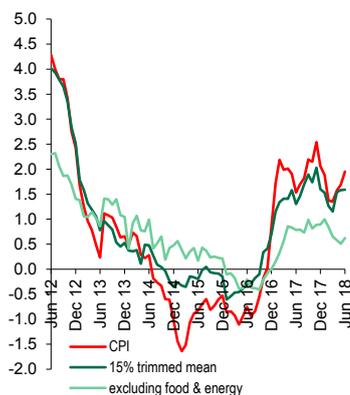
First core inflation rise since January

Core inflation excluding food and energy prices climbed in June to 0.6% y/y from 0.5% y/y in May. This was the first increase in this gauge this year. Other measures of core inflation also went up in June. In our view, core inflation can reach this year's trough so we are expecting core inflation to further increase this year and to surpass 1% y/y before the year-end.

Foreign trade turnover, % y/y



CPI and core inflation, % y/y



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