

Poland: Raising growth forecasts as outlook brightens

Retail sales in June surprised positively, with a recovery of durable goods purchases. Given solid consumer sentiment and signs of recovery in the eurozone after the first quarter soft patch, we revise our 2018 GDP growth forecast higher to 4.8-4.9%



Source: Shutterstock

Retail sales volume (at constant prices) accelerated in June by 8.2% year on year vs 6.1% YoY a month ago, above the market consensus (6.9% YoY). Sales of durable and semi-durable goods recovered after a weak first quarter, and sales in megastores inched up a bit. The June retail sales data broke the deceleration trend visible from the beginning of the year.

We see two reasons for this. Firstly, we assume the World Cup increased demand for electronic appliances. Secondly, temporary effects of the Sunday trade ban faded (retail sales rose in 1Q18 due to stock building ahead of the ban and then weakened in April). Thirdly, and most important the real disposable income dynamics (including wages, social transfers like child benefit etc) strongly accelerated in the second quarter by 11.2% YoY (real) from 7.1% YoY in 1Q18. All these factors provided a solid backdrop for consumption in June.

Today's data is consistent with our estimate of GDP at 5.3-5.4% YoY in 2Q18 vs. 5.2% YoY in 1Q18.

The Polish economy has proven to be resilient to the eurozone soft patch and significant drop in manufacturing orders in 1Q18. Strong domestic demand, both consumption and investments have offset the weakness of external demand.

4.5 GDP (%YoY) - ING forecast

for 2nd half of 2018

We revise our forecast up and expect 4.5% YoY GDP growth in the second half of the year (from 4.0%), with an average annual rate of 4.8-4.9% YoY (vs. 4.6% YoY in 2017 and our previous 2018 forecast of 4.6%). The base effects are less supportive and that explains why GDP dynamics are lower in coming quarters. But there are two important factors, which still call for solid economic activity:

1. The EU co-funded investment cycle is just picking up, which should pass into construction-related parts of industry and that already happened in May-June.
2. We find Polish activity data leading eurozone figures due to a very close relationship between Polish manufacturing and the German supply chain. The positive surprises with the Polish IP in June call for an end of the eurozone soft patch, which is another positive factor.

On the flipside, the risk of a trade war persists. Trump's tariffs for the eurozone automotive sector are negative for Central and Eastern Europe, but less so for Poland due to its diversified exports. Given both factors, we remain optimistic about GDP performance in the rest of 2018.

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