

## Poland: Weaker investment may hit GDP growth this year

Retail sales were close to expectations in January but construction output remained soft. We expect stable private consumption in 1Q19 though investment is likely to moderate



### Retail sales

Retail sales accelerated in January from 3.9% to 5.2% year-on-year (in constant prices), close to the consensus. Food sales recovered after a weak December. Demand for durable goods remained sound, with sales of household appliances and consumer electronics increasing by 10.5% YoY. Still, car sales surprised negatively, with a contraction of 0.9% YoY. Annual sales growth of clothing (3%) was also strongly below our expectations.

The January data suggest stable private consumption – we estimate 4.0% YoY in both 4Q18 and 1Q19, which is lower than 3Q (4.5%). We forecast stable and solid wage growth, oscillating around 7-7.5% in the current quarter, supporting both retail sales and services.

### Construction

The construction sector surprised negatively in January with growth decelerating from 12.2 to 3.2% YoY, below the consensus estimate of 7.8%. Activity during the winter months (January,

February) is not really representative of the rest of the year. The volume of realised projects is seasonally lower and there is also strong volatility related to weather effects. Given the still-solid growth of paid EU funds, we expect a recovery in the coming months, with growth in the construction sector of around 10% YoY in 1Q19.

However even after a recovery, the sector is unlikely to repeat the c.20% growth rate from 2018. We are close to the top of EU money paid, the value of EU funds used for infrastructure investments slowed in 1Q19 from 70% to 24% YoY and should moderate further in the coming quarters. Both the construction sector and public investment should be subdued in 2019.

Furthermore, the increase in private investment was already soft in 2018 (c. 3.5% YoY), and a prolonged slowdown in the eurozone is likely to result in a further reduction. Admittedly, the weakness of eurozone/German manufacturing has been slow to feed through to production in Poland but we worry about other channels, for example that the malaise in the eurozone could hamper the investment plans of Polish companies.

Overall, we expect a slide in total investment growth in 2019 from 7.3% to 5.7% YoY, with downside risk.

## GDP conclusions

Therefore we expect a moderation in GDP growth through 2019. In 1Q, growth should slow from 4.9% to 4% YoY and we expect an annual figure of 3.6% YoY.

## Author

### Rafal Benecki

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

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