

Poland: Strong production shows eurozone soft patch may be over

In the second quarter, the Polish economy delivered two positive production surprises in a row. We estimate that GDP grew by a very solid 5.3-5.4% year on year in that period vs 5.2% YoY in the previous quarter



Industrial production accelerated in June by 6.8% YoY vs 5.4% YoY in May, slightly above consensus expectations (6.3% YoY). More importantly, this is the second positive production surprise in a row. On a seasonally-adjusted basis, a slight deceleration was recorded (from 7.7%YoY to 6.3% YoY).

There are strong local drivers behind the sound production reading in June:

- The contribution of the energy sector and other utilities was high at 1pp.
- Construction-related sectors outperformed other areas.

But importantly, the performance of the automotive sector improved (9.5% YoY in June) after a very weak 1Q18, which shows the eurozone soft patch is probably over.

At the same time, construction output delivered a positive surprise, accelerating further from 20.8%r/r to 24.7%r/r (above the market consensus at 20.2%YoY). The surprise was due to building construction (which includes residential buildings), with the growth rate increasing from 16.6% YoY to 33.6% YoY. Given the historically high number of building permits for residential dwellings and the sharp rise of EU fund payments in the second half of June, construction should remain solid in the second half of the year.

5.3-5.4 GDP (%YoY) in 2Q18
ING forecast

After today's reading, we estimate 2Q18 GDP at 5.3-5.4% YoY, slightly above the 1Q18 reading (5.2%YoY).

We still see slightly lower GDP dynamics in 2H18 but this is mainly due to base effects. The main risk for expansion in the Polish economy i.e. an extension of the eurozone soft patch is likely to disappear in the second half. Poland remains a significant part of the German supply chain and evidence from leading indicators points to improvement there.

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