

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.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.