Addiko Bank

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Flash Note

GDP keeps surprising on the upside in Q3

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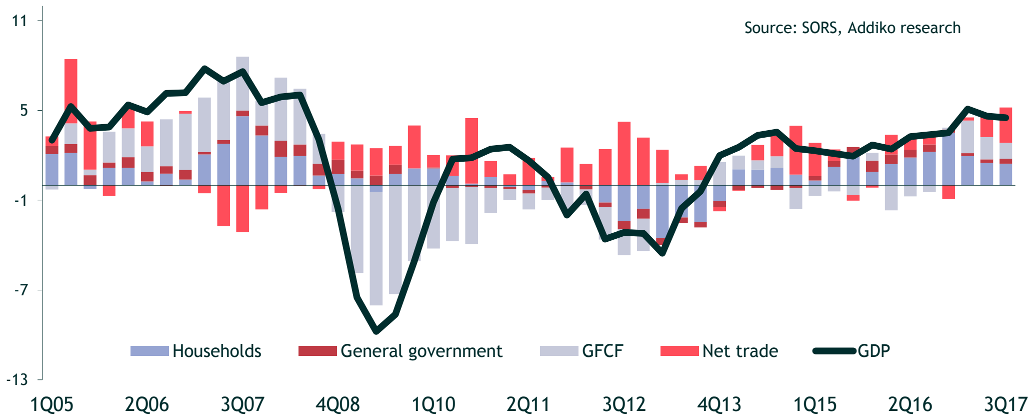
Another sturdy GDP showing in Q3. The 3Q17 GDP flash estimate (up 1.0% qoq and 4.9% yoy seasonally-adjusted, after upwardly revised 5.4% yoy in Q2) exceeded our expectations, with net exports and household consumption the main drivers, adding 2.4pp and 1.9pp, respectively. That said, the biggest positive mover, net trade, owes to the acceleration in the euro area GDP that has pulled Slovenian exports along with it, ongoing Slovenian competitiveness outperformance of the euro area and a fair movement up the value chain. Meanwhile, household consumption was fuelled by consumer sentiment at 20Y high, strong employment and disposable income (outlook), foreign tourists' consumption, resurgent retail credit, cheaper debt service and housing market recovery. While slowing relative to 1H17, investment grew solidly as well thanks to stronger bank lending accentuated by much easier SMEs' access to credit, new EU funding cycle, record corporate profitability and firms' optimism on the heel of ever stronger economic outlook. We nevertheless expect investment dynamics to accelerate in the next quarters given stronger corporate balance sheets, record capacity utilization, robust exports outlook, improved take-up of EU funds and ongoing cheap funding.

2018 - slower momentum but again strongly outperforming the euro area norm. Marking stronger than expected Q2-Q3 growth, and the expected strong Q4 showing, have made our 2017 growth forecast pushed to 4.8%, not least due to ongoing robust euro zone outlook. That said, Q4 GDP quarterly growth will likely soar by almost 1% qoq again, driven by much stronger, investment- and exports-led growth in the euro zone in Q4, as well as stably stronger domestic demand. We have also revised up our 2018 GDP call from 3.5% to 4.0% on the back of substantial carry-over, stubbornly above-potential growth in the euro zone, ongoing ultra-easy financial conditions well into 2019, renewed weakening of the euro and ongoing strong private capex as record capacity utilisation supports that. The growth is further propped up by stronger fiscal impulse (higher structural budget deficit) and stronger investment growth as EU structural funds absorption is set to accelerate. Buoyed by strong labour market, subdued inflation, low debt service costs, higher disposable income and stronger household credit, private consumption is set to grow at 3.5%-alike clip. While the risks to our forecasts are balanced, uncertainty from Brexit, political wobbles in the euro zone and the growing lack of labour locally are the main risks to the downside. Positive surprises on the global conjuncture, fiscal expansion ahead of mid-2018 elections, soaring capex, but also privatization after elections all pose upside risks.

Slovenia: contributions to quarterly changes in real GDP (in pps)



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