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Economic Comment

Domestic demand hit the brakes

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GDP growth in 4Q19 reached 3.2% y/y, and 0.3% q/q in seasonally adjusted terms. The results were 0.1pp above the flash estimate released two weeks ago. Also, the estimate for the entire year was moved from 4.0% to 4.1%.

On balance, even though the headline figure is slightly better than the flash estimate, the breakdown looks worrying, as the slowdown is fuelled mainly by domestic demand (its growth fell to merely 2.2% y/y, lowest since 2016). The coronavirus-related surge in uncertainty at the start of the year and disruptions in supply chains may depress consumption and investments even further. GDP growth is likely to slow further in 1Q, probably below 3%.

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Private consumption slowed to 3.3% y/y in 4Q, its lowest since 2Q16 (despite the government money transfers worth over PLN20bn and still solid labour income), indicating a rise in households' saving rate. Investment growth reached 4.9% y/y (vs. 4.7% in 3Q), which means that the surprising rebound (to over 7%) suggested by earlier flash data did not materialise. As construction output shrank in 4Q19 (-4.0% y/y), investment outlays on machinery and equipment most likely accelerated and this category is correlating with companies investment, so an acceleration in this category was probable (we are guessing a +15% y/y increase). However, we doubt the persistence of this acceleration given the coronavirus-related rise in uncertainty in 1Q2020.

The net export's contribution to GDP growth was boosted to 1.1pp, which is consistent with big improvement in international trade balance. The biggest drag on economic growth came from inventories' drop (-1.3pp).

There were no major surprised in the supply side: industry slowed slightly to 3.1% y/y from 3.4% in 3Q19, value added in construction went down by 1.7% y/y vs +3.6% y/y in 3Q19. Trade also slowed a bit, while transport accelerated to 9.3% y/y from 7.0% y/y. In 1H20 we are expecting some further slowdown in industry, transport and trade, while construction could rebound somewhat.

On balance, even though the headline figure is slightly better than the flash estimate, the breakdown looks worrying, as the slowdown is fuelled mainly by domestic demand (its growth fell to merely 2.2% y/y, lowest since 2016). The coronavirus-related surge in uncertainty at the start of the year and disruptions in supply chains may depress consumption and investments even further. The positive net exports' contribution to GDP is likely to continue, however, mitigating the slowdown somehow. Still, GDP growth is likely to slow further in 1Q, probably below 3%. The main question right now is how quickly the global economy will recover from the coronavirus-related disruptions.

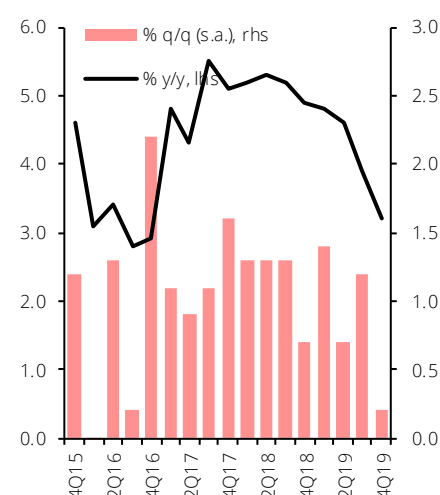
GDP growth and its components (% y/y)

	2018	2019	4Q18	1Q19	2Q19	3Q19	4Q19
GDP	5.1	4.1	4.9	4.8	4.6	3.9	3.2
Domestic demand	5.1	4.1	4.8	3.9	4.6	3.3	2.2
Total consumption	4.1	3.9	4.0	4.4	4.0	4.0	3.2
Private consumption	4.3	3.9	4.0	3.9	4.4	3.9	3.3
Public consumption	3.6	4.2	3.9	6.3	3.1	4.7	3.1
Gross accumulation	10.1	1.8	6.9	1.5	7.1	0.4	-0.2
Fixed investment	8.9	6.9	8.9	12.2	9.1	4.7	4.9
Stock building *	0.4	-0.9	-0.3	-1.3	-0.2	-0.8	-1.3
Net export *	0.0	0.8	0.3	0.9	0.2	0.7	1.1

* contribution to GDP growth (percentage points)

Source: GUS, Santander

Polish GDP growth

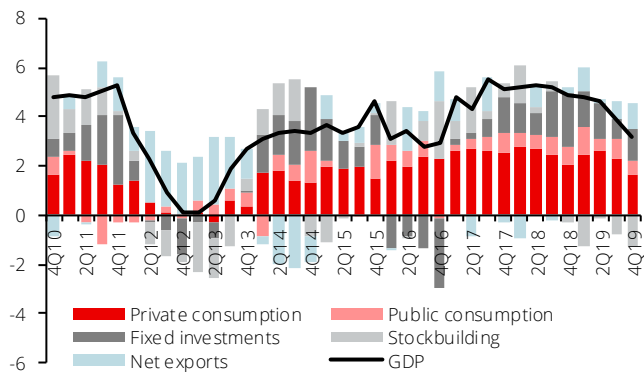


Source: GUS, Santander

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GDP growth breakdown (% y/y)



Source: GUS, Santander

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