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# Economic Comment

## The virus reaches industry

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Industrial output fell in March by 2.3% y/y vs -3.3% market expectations and our +1.4% forecast, down from +4.9% y/y in February. In seasonally adjusted terms, industrial output shrank by 4.8% y/y vs +3.2% previously. Polish industry has clearly been hit by the economic distortion caused by the pandemic – with some industries came to a standstill while some saw improved demand. The March data have not shown the full scale of the shock as the lockdown was introduced in the middle of the month and we assume that the output decline may exceed 10% y/y in the following months.

Industrial output fell in March by 2.3% y/y vs -3.3% market expectations and our +1.4% forecast, down from +4.9% y/y in February. Manufacturing output was down 3%, while output of utilities was up 4.7% y/y. In seasonally adjusted terms, industrial output shrank by 4.8% y/y vs +3.2% previously, which is the worst reading since Dec 2012.

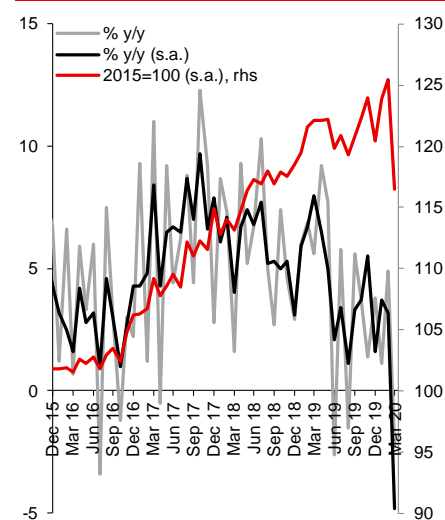
Polish industry has clearly been hit by the economic distortion caused by the pandemic. Many factories closed during the month, employment data showed a record decline in workforce due to layoffs, but also people taking unpaid holidays, sick and childcare leaves.

The largest deterioration was seen in car production (-28.6% y/y), coal mining (-15.9% y/y, this sector has its own problems, unrelated to Covid-19), furniture (-14.7%) and electronics (-11.1% y/y). This corresponds with February C/A data which signaled problems with deliveries of supplies from China, including IT and car components. On the other hand some sectors got a production boost: pharmaceuticals (+39.7% y/y), paper products (+9.9% y/y, incl. cardboard, most likely due to more demand from e-commerce for packaging as restrictions were placed on shops and malls), food industry (+7.1% y/y, households' stock building) and chemicals (+6.9% y/y).

Out of main industrial grouping, consumer durables and investment goods were the most affected ones with output decline exceeding 15% y/y in both, while consumer non-durables (including foodstuffs and hygienic products inter alia) saw a rise of output by 4.1%.

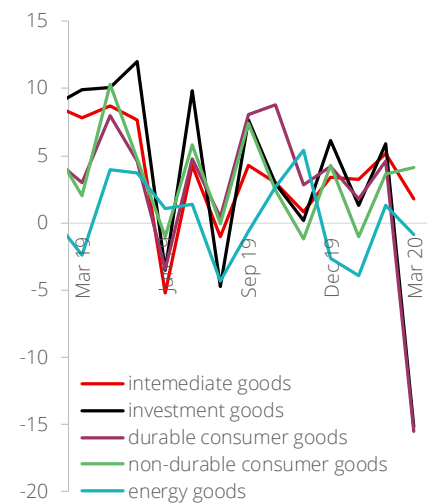
The March data have not shown the full scale of the shock as the lockdown was introduced in the middle of the month and we assume that the output decline may exceed 10% y/y in the following months, and the economy as a whole will suffer from negative growth starting from 2Q20.

### Industrial output, % y/y



Source: GUS, Santander

### Industrial output by sectors, % y/y



Source: GUS, Santander

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