

15 May 2020

# Economic Comment

## CPI and GDP: calm before the storm

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According to flash estimate, GDP growth slowed to 1.9% y/y in 1Q20, from 3.2% y/y in 4Q, with consensus around 1.7% and our estimate at 0.9%. The seasonally adjusted growth was -0.5% q/q. With 2Q20 possibly at around -12% q/q in our view it seems clear that Poland will enter a recession. April CPI inflation was confirmed at 3.4% y/y. The detailed reading showed there were in general no significant downward price pressures yet in the economy, core inflation likely down by only 0.2pp to 3.4% y/y. In our view, this stability in price developments is mainly due to problems with measurement, which are likely to be receding soon. We are expecting CPI inflation to go down in the months to come to 1.5% in December.

### GDP growth stronger than we expected y/y, but turns negative q/q

According to flash estimate, GDP growth slowed to 1.9% y/y in 1Q20, from 3.2% y/y in 4Q, with consensus around 1.7% and our estimate at 0.9%. This is the weakest print since 3Q13. The seasonally adjusted growth was -0.5% q/q and 1.6% y/y. It seems clear that this time Poland will be unable to avoid a technical recession (the last one was recorded in 1H01) as the 2Q20 reading may come close to -12% q/q and below -10% y/y according to our estimate.

Overall, the data confirmed that a visible (but not as sharp as we expected) economic slowdown took place already in 1Q20, despite the fact that only the last two weeks of the quarter were covered by the lockdown period. We suspect that private consumption and services were the first to suffer from the epidemic.

GUS stressed that despite the pandemic, the data are based on the same sources as always and thus comparable to previous results, albeit revisions are possible. No revisions to the data for the last two years were shown in this release. The full GDP data for 1Q20 will be released on 29 May.

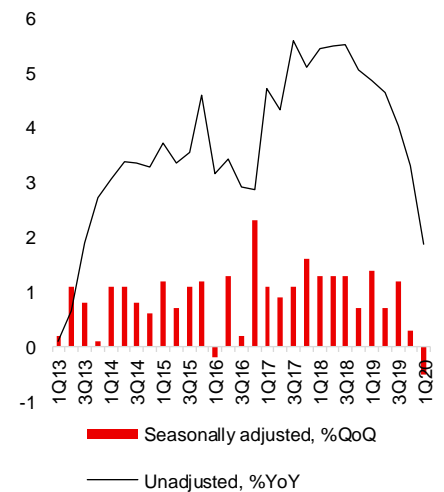
### Inflation's rigidity

April CPI inflation was confirmed at 3.4% y/y. The detailed reading showed there were no significant downward price pressures in the economy, apart from declining prices of fuels, books and insurance. Services prices rose by 1.4% m/m and remained unchanged at 6.5% y/y.

In our view, this stability in price developments is mainly due to problems with measurement, which are likely to be receding soon as Covid restrictions are being relaxed and businesses are allowed to reopen. We guess that the Statistical Office chose to use typical seasonal factors of to use unchanged annual growth rates for prices that were difficult to collect. This resulted in counterintuitive readings like +0.4% m/m in restaurants, +2.2% in organised tourism or +24.8% in transport services. We expect that many businesses will be offering price discounts in order to encourage consumers to use their services again, at least in leisure-related services.

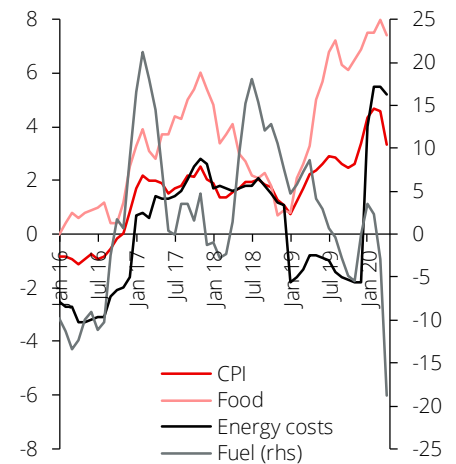
We expect CPI inflation to go down in the months to come to 1.5% in December. We estimate April core inflation at 3.4% y/y, down from 3.6% in March.

GDP growth, % y/y



Source: GUS, Santander

CPI inflation and selected components, %y/y



Source: GUS, Santander

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