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# Economic Comment

## Weak consumption, strong core inflation

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Polish 1Q GDP growth was 2.0% y/y vs 1.9% flash estimate and the previous reading of 3.2%. The slowdown was caused by a sharp deceleration of investments and private consumption. This does not bode well for next readings. We fear that the 2Q GDP print, the most affected by the pandemic, could be at about -12% y/y, with downside risks due to the weakness of April data, and the full-year result could be around -4%. According to flash reading, CPI inflation went down to 2.9% y/y in May from 3.4% y/y in April. CPI was dragged lower by food and fuel prices. We estimate that core inflation climbed to 3.7-3.8% y/y from 3.6% y/y in April. We expect further declines of inflation in the months to come given weaker total demand.

### Weakness of investments and private consumption in 1Q

Polish 1Q GDP growth was 2.0% y/y vs 1.9% flash estimate and the previous reading of 3.2%. After seasonal adjustment, the economic growth was 1.7% y/y (vs 1.6% shown in the flash release) and -0.4% q/q (vs -0.5% flash reading).

The slowdown was caused by a sharp deceleration of investments (to 0.9% y/y from 6.1%) and private consumption (to 1.2% y/y from 3.3%). In both cases the pace of slowdown is stronger than we had expected. Data on investment outlays among large companies and relatively good construction sector performance suggested a minor decline of total investments growth compared to 4Q19. We also assumed that private consumption was less affected as the lockdown period covered only the last two weeks of the quarter and consumers were building stocks of basic goods.

Imports proved stronger than we had estimated based on monthly data, falling only 0.2% y/y instead of 1.8% we had assumed and net exports added only 0.4 pct pts to y/y GDP growth (we expected 0.8).

No fall of inventories (similar value of inventory changes as in 1Q19) and higher contribution from public consumption mitigated the decline of economic growth in 1Q.

Such growth structure does not bode well for next readings. We fear that the 2Q GDP print, the most affected by the pandemic, could be at about -12% y/y, with downside risks due to the weakness of April data, and the full-year result could be around -4%.

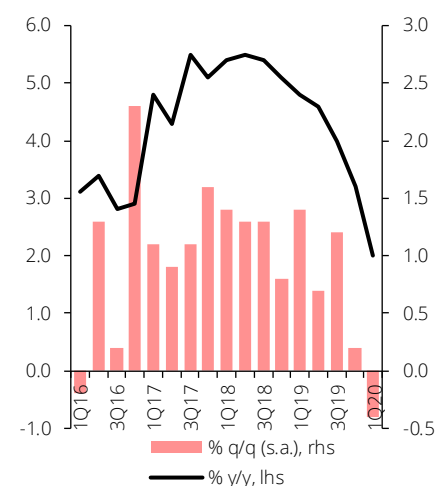
Most of the sectors showed significant slowdown of value added growth in 1Q20, the lowest growth was seen in hotels and restaurants (0.9% y/y), trade and repair of vehicles (0.4% y/y); industry slowed from 3.3% to 1.1% y/y (the worst result in three years). On the other hand, construction sector fared relatively well with acceleration of value added growth to 4.9% y/y (one-year high).

### CPI inflation down, core inflation higher

According to flash reading, CPI inflation went down to 2.9% y/y in May from 3.4% y/y in April. CPI was dragged lower by food prices, which advanced by 6.1% y/y vs 7.4% in the previous month (we blame falling poultry, pork and butter prices) and by fuel prices, which fell by 23.4% y/y vs -18.8% y/y in April. We estimate that core inflation climbed to 3.7-3.8% y/y from 3.6% y/y in April. We would like to remind that a major part of the CPI basket was "frozen" (about 20% in April), as the Statistics Office had problems with recording prices, especially in services. This is stabilising annual growth rates. Meanwhile, prices of freshly "unfrozen" services in May, like hairdressers, may have temporarily hiked their prices faced with strong postponed demand and higher costs of strict sanitary regime.

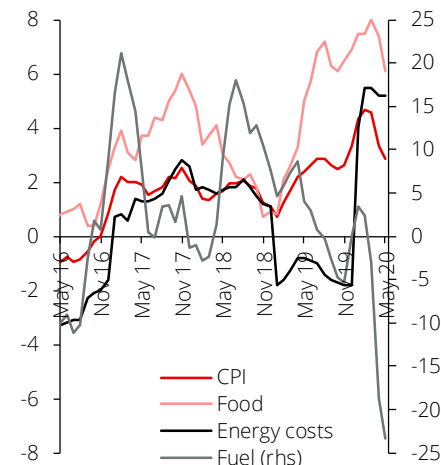
We expect further declines of inflation in the months to come given weaker total demand. Our estimate of December CPI inflation sits at 1.7%.

### Polish GDP growth



Source: GUS, Santander

### Selected CPI components, % y/y



Source: GUS, Santander

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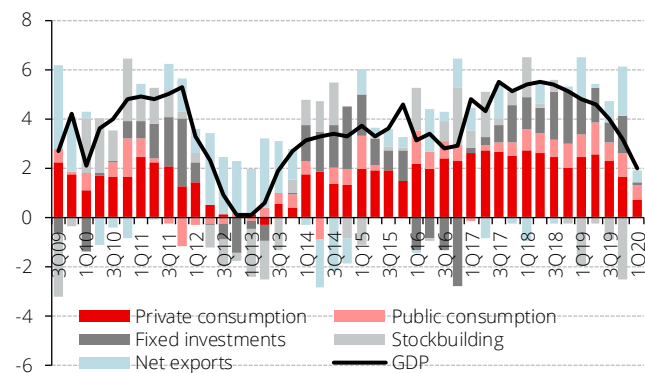
### GDP growth and its components (% y/y)

	2018	2019	1Q19	2Q19	3Q19	4Q19	1Q20
GDP	5.3	4.1	4.8	4.6	4.0	3.2	2.0
Domestic demand	5.6	3.0	3.3	4.7	3.3	1.3	1.7
Total consumption	4.3	4.1	4.6	4.3	4.2	3.2	1.8
Private consumption	4.2	3.9	3.9	4.4	3.9	3.3	1.2
Public consumption	3.7	4.9	7.4	4.3	5.4	3.2	4.3
Gross accumulation	10.6	-0.7	-3.3	6.3	-0.4	-3.6	0.7
Fixed investment	9.4	7.2	11.6	8.8	4.6	6.1	0.9
Stock building *	0.5	-1.4	-2.0	-0.3	-0.9	-2.5	0.0
Net export *	0.0	1.2	1.6	0.2	0.9	2.0	0.4

\* contribution to GDP growth (percentage points)

Source: GUS, Santander

### GDP growth breakdown (% y/y)



Source: GUS, Santander

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