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Economic Comment

The GDP trough is behind

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GDP growth in 2Q20 was confirmed at -8.2% y/y nsa, -8.9% q/q sa, in line with the flash estimate. Private consumption and investments fell by almost 11% y/y, while public consumption and net exports had positive impact on GDP. Data more or less confirm the intuition about the nature of economic activity freeze in the peak of pandemic lockdown. At the same time, high frequency data show that since June the economy started getting back to life and the recovery process so far is quite effective. Moreover, the scale of deterioration in services less affected by lockdown restrictions in 2Q was smaller than we thought. Overall, we see reasons to adjust GDP growth forecast for this year higher. We will present details in the MACROscope Lite report, to be released this week.

In 2Q20, Polish GDP contracted 8.2% y/y and 8.9% q/q in seasonally adjusted terms. The result was in line with the flash estimate. Both private consumption and investments fell by 10.9% y/y. In case of consumption, this was the biggest drop since data is available (1996) and for investments since 2002. The drop of inventories also contributed negatively (-1.7pp off from the headline figure). On the other hand, public consumption proved supportive and even showed some improvement to 4.8% y/y. Net exports added 0.8pp to the GDP change since imports plummeted more than exports (-17.5% y/y and -14.5% y/y, respectively). Overall, the domestic demand fell 9.6% y/y, the most ever. In 3Q, the consumption demand should recover, but is difficult to expect it to return to the pre-covid levels soon as spending could be limited by weaker households revenues (the unemployment rate did not rise much but the pace of wage growth decelerated sharply). Also, inventories are likely to be restored first. The outlook for investments seems to be less optimistic and strong negative readings could stay with us until the end of the year. The trade balance should remain a positive contributor since data signal a very fast recovery of exports while demand for imported goods could show some improvement with a delay.

GDP growth and its components (% y/y)

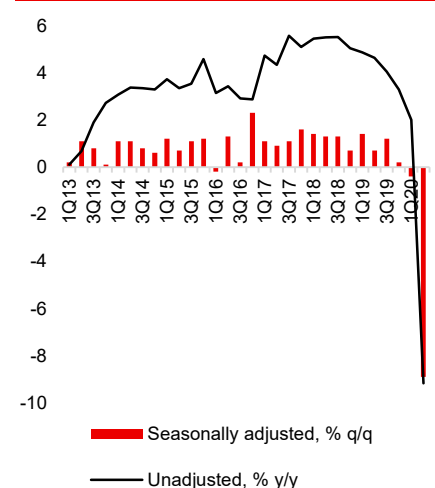
	2018	2019	2Q19	3Q19	4Q19	1Q20	2Q20
GDP	5.3	4.1	4.6	4.0	3.2	2.0	-8.2
Domestic demand	5.6	3.0	4.7	3.3	1.3	1.7	-9.6
Total consumption	4.3	4.1	4.3	4.2	3.2	1.8	-7.3
Private consumption	4.2	3.9	4.4	3.9	3.3	1.2	-10.9
Public consumption	3.7	4.9	4.3	5.4	3.2	4.3	4.8
Gross accumulation	10.6	-0.7	6.3	-0.4	-3.6	0.7	-18.7
Fixed investment	9.4	7.2	8.8	4.6	6.1	0.9	-10.9
Stock building *	0.5	-1.4	-0.3	-0.9	-2.5	0.0	-1.7
Net export *	0.0	1.2	0.2	0.9	2.0	0.4	0.8

* contribution to GDP growth (percentage points)

Source: GUS, Santander

The gross value added declined by 8.5% y/y. We see 3 clear patterns of how the pandemic has been influencing the gross value added in specific sectors of the economy: (1) a very strong impact (-78.5% y/y in gastronomy and accommodation), (2) a strong impact (-14.9 y/y% transport, -12.6% y/y manufacturing, -12.4 % y/y in trade) and a negligible impact (-2.7% in finance and insurance, -1.1% y/y in professional activity and -0.8% y/y in construction). We are actually surprised by the size of the last group which constitutes as much as 46% of the economy (based on 2Q19 weights). The data from the services sectors are particularly important, because high frequency data from these branches is not too common. Monthly data from the manufacturing and trade sectors indicate that 3Q2020 might be already slightly better than the quarter a year before, while half of the economy proved to be quite immune to the pandemic. As a result, in our opinion, the speed of the economic normalisation might be faster than we expected.

Polish GDP growth

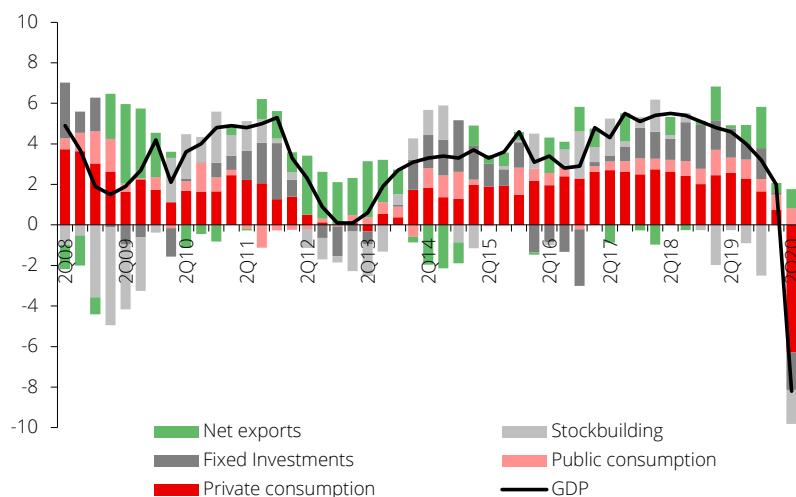


Source: GUS, Santander

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GDP growth breakdown (% y/y)



Source: GUS, Santander

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