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Economic Comment

Solid GDP in Q3, CPI slightly down

Piotr Bielski, +48 22 534 1887, piotr.bielski@santander.pl

Marcin Luziński, +48 22 534 1885, marcin.luzinski@santander.pl

GDP growth rebounded strongly in the third quarter: 7.7% q/q (s.a.) and -1.6% y/y, after a record-big slump recorded in Q2. This trend will not continue in Q4, as the new wave of pandemic and the related restrictions are likely to cause a contraction of business activity again. However, we still think the second dip will be much smaller than the first one, leaving the 2020 GDP forecast at around -3%.

October inflation was revised to 3.1% y/y from 3.0% y/y in flash reading (and versus 3.2% in September). Core inflation most likely remained unchanged at 4.3% y/y or went a notch lower. We are expecting inflation to go down to 2.5% in December and to remain contained in 2021, allowing the MPC to comfortably leave rates unchanged.

Solid GDP rebound in 3Q

Polish GDP rebounded in 3Q to -1.6% y/y from -8.4% y/y in 2Q (market consensus was -1.2%, our forecast -1.8%). The seasonally adjusted y/y growth was -2.0%, which was the second smallest drop among EU countries that have reported to date. The quarter-on-quarter rebound (s.a.) was 7.7% (very close to our forecast 8%) and came after -9% q/q drop in Q2. The data confirmed that the economic revival in the third quarter was impressive. The flash release does not show the detailed breakdown of GDP (the more complete data will be released on November 30), but the high-frequency economic indicators have signalled that the rebound was particularly strong in manufacturing, foreign trade, consumption (partly due to the pent-up demand).

Of course the positive trend observed in 3Q will not continue in 4Q, as the new wave of pandemic hit and the new restrictions were implemented, limiting business activity in some areas. However, it is quite likely that the GDP drop in 4Q will be much smaller than in 2Q, as the restrictions are (still) less severe than in the spring and, more importantly, manufacturing is less likely to suffer a major blow amid continuing external demand (as the European industry appears to be less affected this time). Overall, we keep our 2020 GDP forecast at around -3%, with a potential for some downward revision if the pandemic-related restrictions escalate much further.

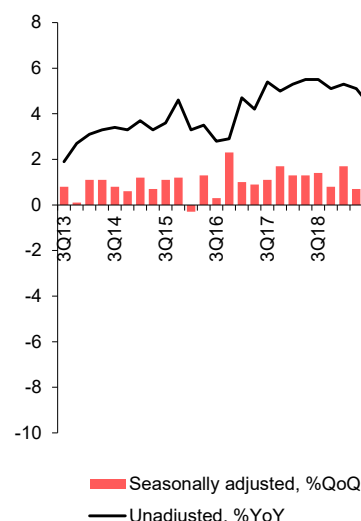
CPI lower due to meat prices

October inflation was revised to 3.1% y/y from 3.0% y/y in flash reading (and versus 3.2% in September). Prices of good eased to 1.5% y/y from 1.7% y/y while prices of services accelerated to 7.3% y/y from 7.2% y/y.

Inflation was dragged lower mainly thanks to easing food prices (2.4% y/y in October vs 2.8% y/y in September), which went down mostly due to developments on the meat market, partially due to spread of ASF disease in Germany. Communication was another negative contributor (4.6% y/y vs 5.5% y/y one month earlier), as September rise in communication services seems to have been reversed. Organised tourism services fell by 3.4% m/m. Other categories were more or less in line with their usual patterns, but there are some upward exceptions: 1) heat energy went up by 0.9% m/m (highest rise in more than 5 years) due to higher prices of coal and CO2 emissions. This trend is likely to continue and to affect energy prices in the months to come. 2) financial services prices went up by 2.5% m/m and the low interest rate environment supports hikes in this sector.

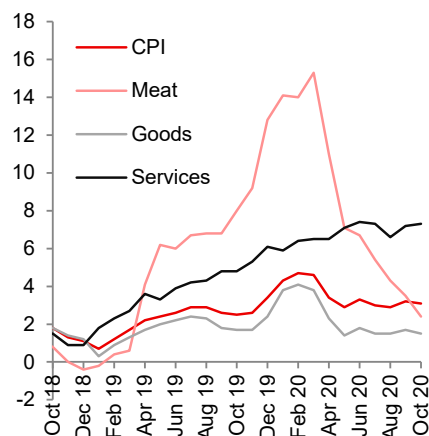
Core inflation most likely remained unchanged at 4.3% y/y or went a notch lower. We are expecting inflation to go down to 2.5% in December amid muted demand and to remain contained in 2021, allowing the MPC to comfortably leave rates unchanged.

Poland GDP growth



Source: GUS, Santander

CPI, main categories, %y/y



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 22 534 18 87
 Marcin Luziński +48 22 534 18 85
 Wojciech Mazurkiewicz +48 22 534 18 86
 Grzegorz Ogonek +48 22 534 19 23
 Marcin Sulewski, CFA +48 22 534 18 84

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.