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Economic Comment

Decent 1Q GDP print, goods inflation rise

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Poland's GDP fell -1.2% y/y in 1Q21, according to flash estimate, vs. market consensus at -1.3% y/y. Seasonally adjusted GDP growth reached +0.9% q/q and -1.7% y/y. This is a decent result, in our view, given that the economy was still struggling with the pandemic restrictions at the start of the year. We expect a major revival in economic activity in 2H21. Our GDP growth forecast for the whole 2021 is at 4.6%.

April CPI was confirmed at 4.3% y/y. Rise vs 3.2% in March was mostly driven by a surge in fuel prices, but there were several other upward contributors: food, clothing and footwear, furniture. We are estimating core inflation (due for release on Monday 17 May) at 3.6-3.7% y/y, i.e. slightly lower than 3.9% y/y recorded in March. In our view CPI is likely to climb further in May but then is likely to ease somewhat, but to remain above the NBP target for at least a few quarters.

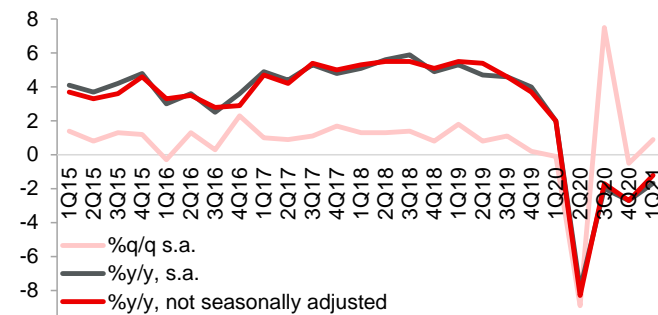
GDP up in q/q terms despite epidemic restrictions

Poland's GDP fell -1.2% y/y in 1Q21, according to flash estimate, vs. market consensus at -1.3% y/y. Seasonally adjusted GDP growth reached +0.9% q/q and -1.7% y/y. This is a decent result, in our view, given that the economy was still struggling with the pandemic restrictions at the start of the year. The level of real GDP reached in 1Q21 was higher than in the same period of 2019 by 0.3% and still 1.8% below the 4Q19 pre-pandemic level.

The flash release does not reveal the breakdown of growth but we estimate that the first quarter has already seen some gentle pickup in private consumption, a major revival in exports (although the net export's contribution was close to neutral as imports picked up as well), while investments remained stagnant with likely double-digit decline y/y.

We estimate GDP growth in 2Q21 at around +9% y/y (amid very significant base effect), which would correspond to still only moderate q/q increase. But then we expect a major revival in economic activity in 2H21, after (if) the Covid-related uncertainty disappears (which we think is still possible once the vaccine rollout reaches a critical point), releasing consumer spending and investments from the pandemic mode. Our GDP growth forecast for the whole 2021 is at 4.6%.

GDP growth in Poland

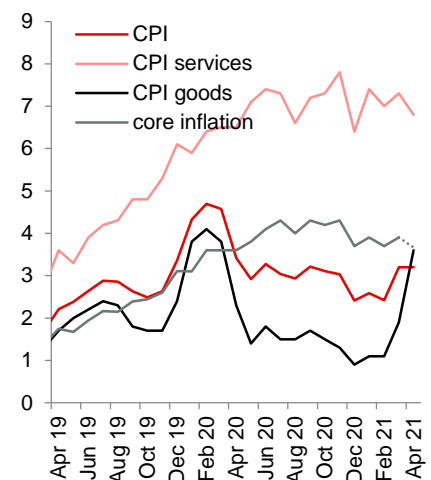


CPI up due to both low base effect and strong momentum

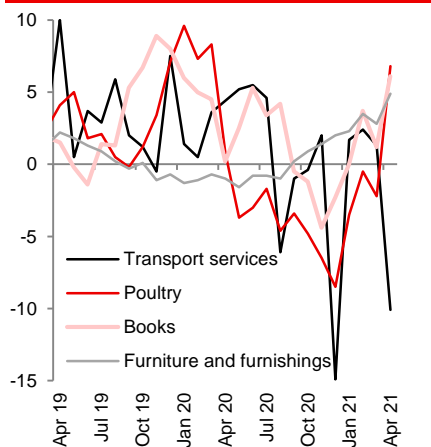
April CPI was confirmed at 4.3% y/y vs 3.2% y/y in March. Goods accelerated to 3.6% y/y (the highest pace since March 2020), while services prices rose by 6.8% y/y and decelerated from 7.3% y/y in March.

Deceleration in services was mostly driven by a plunge in transport services (-10.1% vs +1.3% in March) and we think that this does not really tell the story in the transport sector. Most of the volatility in this sector is generated by air transport prices, which typically go strongly up during the holiday season. In April 2020 the Statistics Office

CPI and selected components, % y/y



CPI - selected categories, % y/y



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assumed a major rise in prices, in line with the seasonal pattern, even though the air transport was virtually at a halt. This time the Office assumed a very mild rise and this yielded a massive decline in annual growth rate – but one that is likely to reverse in the next print.

CPI rise vs March was mostly driven by a surge in fuel prices (28.1% y/y vs 7.6% y/y in March, driven by both low statistical base and strong m/m rise), but there were several other upward contributors: food, clothing and footwear, furniture. Food prices accelerated to 1.2% y/y from 0.5% y/y on the back of rising prices of meat (especially poultry as bird flu is weighing on supply) and fats. Clothing and footwear accelerated to -0.3% y/y from -1.4% y/y in March, but this development was mostly driven by low base effect, with monthly price growth more or less in line with seasonal pattern. Housing prices accelerated to 2.6% y/y from 1.9% y/y, mostly thanks to higher furniture prices (4.9% y/y in April vs 2.8% in March). We guess that this is mostly caused by supply shortages in this sector so upward price pressure is likely to continue. Also books' prices accelerated markedly, to 6.1% y/y from 1.2% y/y, but this was again a low base effect.

We are estimating core inflation (due for release on Monday 17 May) at 3.6-3.7% y/y, i.e. slightly lower than 3.9% y/y recorded in March. Quite positive vaccination rollout and looser restrictions will be supportive for price growth. In our view CPI is likely to climb further in May but then is likely to ease somewhat, but to remain above the NBP target for at least a few quarters.

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