

Economic Comment

Strong domestic demand in 1Q21

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1Q21 GDP growth was revised up to -0.9% y/y and +1.1% q/q (sa) from -1.2% y/y and +0.9% q/q. The growth breakdown proved very surprising, especially the investment rebound by 1.3% y/y (nsa) and 18.2% q/q (sa). The recovery of investment activity came much earlier than we had thought. Private consumption was also quite strong at +0.2% y/y and +1.0% q/q and should see a further recovery together with looser restrictions and improving incomes. On the other hand net exports' contribution to GDP growth reached -1.9pp and was a major negative surprise. In general, the GDP growth structure based on strong domestic demand seems to support a further buildup of inflationary pressure. In 1Q the GDP deflator rose to 5.8% y/y, the highest since 2004 (albeit the acceleration came mostly from prices in international trade). We expect a further rebound of the economy in the coming quarters. In 2Q21 the annual GDP growth may be close to double-digit levels (due to a very low base) and in the whole year it should exceed 4.5%.

1Q21 GDP growth amounted to -0.9% y/y and +1.1% q/q in sa terms, so there was a notable upward revision versus the flash reading at -1.2% y/y and +0.9% q/q sa.

The growth breakdown proved very surprising, with **investment** rebounding by as much as 1.3% y/y (nsa) and 18.2% q/q (sa) after three quarters of declines and vs our forecast at -14% y/y. This brought the seasonally adjusted investments already above its pre-covid level. Earlier, a positive signal on investment activity was visible in the financial results of big companies in 1Q21. It seems that companies began to take more business risk much earlier than we had expected. Data from the enterprise sector suggest that investment outlays were focused on machinery, equipment and transport, while investment in buildings is still sluggish. This seems to be in line with the large divergence between rebound in fixed investments and a decline in gross value added in construction (-15% y/y).

GDP growth and its components (% y/y)

	2019	2020	1Q20	2Q20	3Q20	4Q20	1Q21
GDP	4.7	-2.7	2.0	-8.3	-1.7	-2.7	-0.9
Domestic demand	3.6	-3.7	0.9	-9.5	-3.2	-2.9	1.0
Total consumption	4.5	-1.3	1.5	-7.5	0.9	-0.2	0.6
Private consumption	4.0	-3.0	1.2	-10.8	0.4	-3.2	0.2
Public consumption	6.5	4.4	2.5	3.4	3.0	7.7	2.5
Gross accumulation	0.3	-12.9	-2.1	-17.6	-20.0	-10.4	3.4
Fixed investment	6.1	-9.6	1.7	-9.8	-8.2	-15.4	1.3
Stock building *	-1.0	-0.8	-0.5	-1.8	-2.4	1.3	0.3
Net export *	1.3	0.8	1.1	0.8	1.4	0.1	-1.9

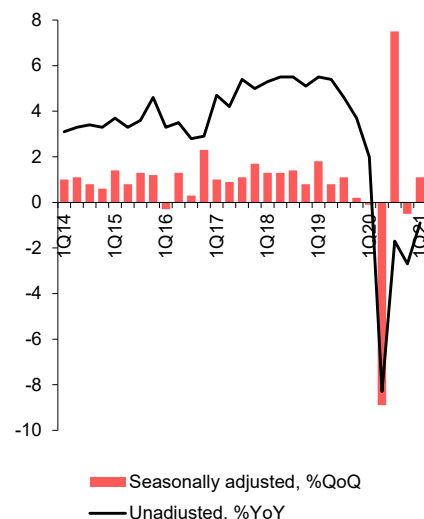
* contribution to GDP growth (percentage points)

Source: GUS, Santander

Private consumption also proved higher than we expected as it rose by 0.2% y/y (+1% q/q sa) even though 1Q21 still saw pandemic restrictions undermining the consumer behaviour. It seems likely that the upcoming quarters will see a further recovery in private consumption together with looser restrictions and improving household incomes. The improvement in stockbuilding (+0.3pp contribution to GDP growth) also surprised to the upside given the scale of reported problems with supply and scale of demand recovery. In total, the domestic demand was positive in annual terms (+1.0% y/y) for the first time since the pandemic started.

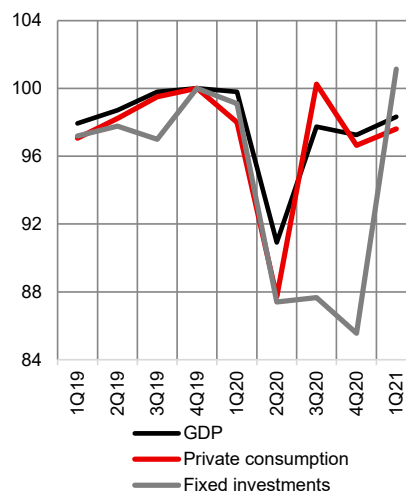
The positive surprises described above were accompanied by a major disappointment in foreign trade balance – **net exports'** contribution to GDP growth amounted to -1.9 percentage points, the lowest since 2014. This happened due to a slowdown in real growth of export (5.7% y/y) amid an acceleration in import (10.0% y/y). Interestingly,

Polish GDP growth



Source: GUS, Santander

GDP, consumption and investment levels, 4Q19=100, s.a.



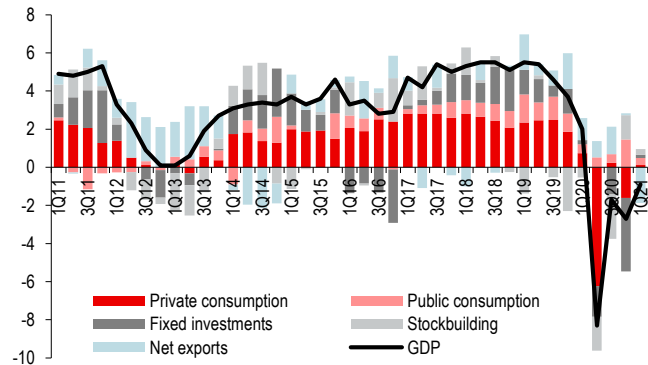
Source: GUS, Santander

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foreign trade balance shown in the GUS data is markedly worse than indicated by the NBP data on balance of payments, suggesting that a looming data revision.

GDP growth breakdown, demand side (% y/y)



Source: GUS, Santander

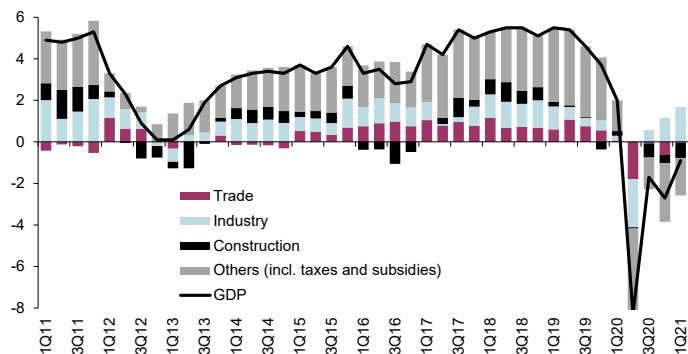
On the supply side, the total gross value added declined by 1.3% y/y, compared to -3.0% y/y in 4Q20.

The variation in annual growth rates of value added in different sectors remained high. The economy was driven by industry, with grew by 7.3% y/y in value added. Quite strong performances were also delivered by transport (2.1% y/y, +2.5% q/q) and trade (-0.3% y/y, +4.5% q/q). Note that the major rebound in trade occurred despite the fact that the sector was strongly restricted for about half of the quarter.

Housing market activities (0.8% y/y), public administration (2.6% y/y) and information/communication (-2.1%) remained fairly unscathed by the pandemic. Restaurants and hotels witnessed a decline by 77.2% y/y, and other categories by 26.3% y/y as restaurants were still closed and hotels and recreation opened only for a few weeks. Value added in construction remained deep below zero, at -15.1% y/y (-3.8% q/q).

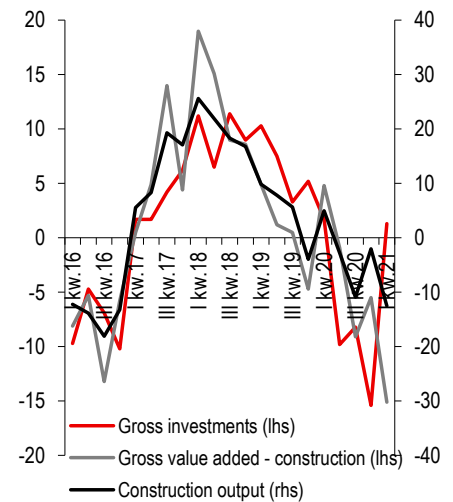
As restrictions were markedly loosened in May, we think that 2Q21 is likely to see a major rebound in most value added categories, especially in trade and services connected to leisure. We are also quite optimistic about construction and positive investment growth could suggest that some rises in this sector are also probable.

GDP growth breakdown, supply side (% y/y)



Source: GUS, Santander

Fixed investments vs construction sector output, % y/y



Source: GUS, Santander

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