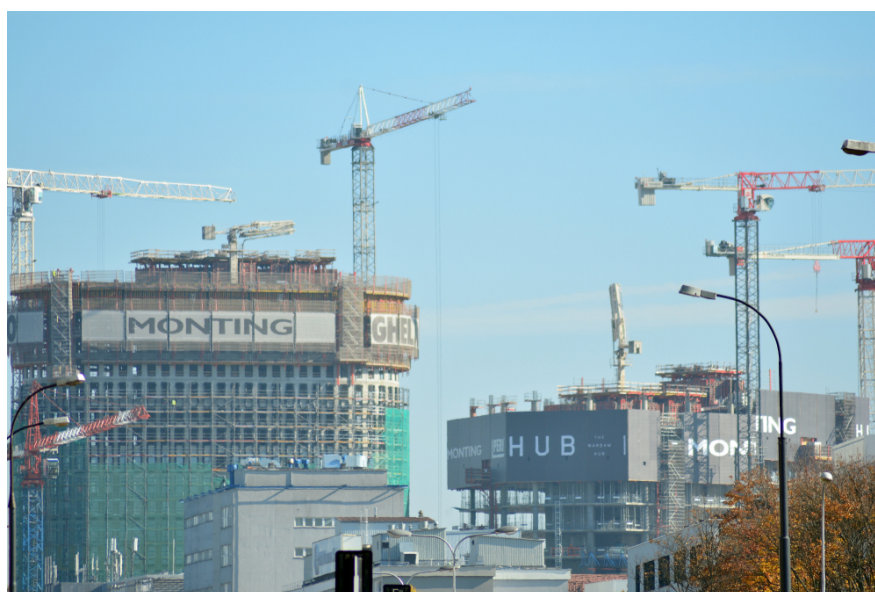


Poland: Industrial collapse in April

Industrial output declined by 24.6% year-on-year in April vs -2.3% in March. Data supports our below-consensus GDP forecast for 2020 at -4.5% YoY



Construction of the 'Warsaw Hub', Poland

Unlike some of the Western EU countries, in Poland there was no enforced lockdown in manufacturing. Hence the drop in production was led by segments that entered a voluntary closure, facing either a shortage of foreign demand, or disruptions in supply chains. The strongest output declines occurred among producers of cars (-79% YoY) and in furniture (-50%). Both sectors are export-dependent. Significant drops also occurred in other areas that rely on external demand e.g. machine production (-34%). Activity among segments linked to construction was weak as well (declines between 17-25% YoY). The only significant manufacturing segment with improved activity was production of pharmaceuticals and medical equipment.

Daily data on electricity consumption, a good activity proxy, suggests no significant recovery in May so far. Electricity consumption declined by 8% YoY in the first half of May, compared to the -8.3% average in April. Industrial activity in May is also likely to be affected by the Covid-19 outbreak in Southern Poland, particularly in mining regions.

GDP implications:

We expect the GDP consensus for 2020 (currently at -3.5%) to gradually gravitate towards our

forecast of -4.5% YoY. Yesterday, the Polish Ministry of Finance flagged a likely revision of their forecasts to -4% or -5% YoY. Similar forecasts were presented by the International Monetary Fund and European Commission.

Industrial activity should rebound in July or the second half of 2020. Experiences from other countries affected by Covid-19 suggest that economies quickly recover 50-60% of the related drop in production. However, it's important to consider what comes next, specifically, how fast consumer spending and investments recover and how severe the outbreak will be after the lockdown has been lifted.

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