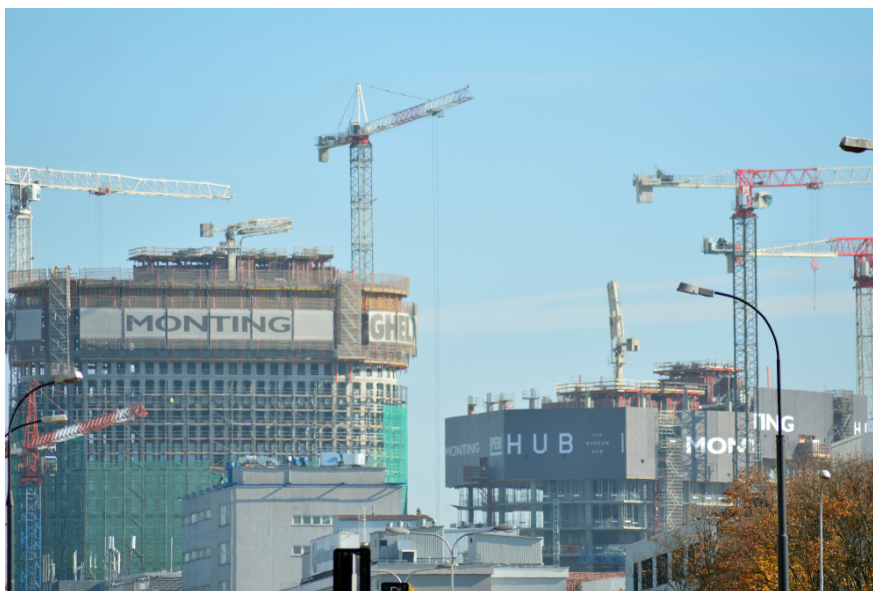


Poland: Industrial production recovery much stronger than consensus

June industrial production grew by 0.5% year-on-year, after a drop of 17% in May. This reflects improving exports and adds 0.23 percentage points to 2Q20 GDP. Still, market services are the key unknown in forecasting the scale of the second quarter GDP contraction



Construction of the 'Warsaw Hub', Poland

The recovery was stronger even compared to our forecast (-3.0%), which was the highest among economists polled by Bloomberg, and substantially above the consensus (-6.9%). The rise in production largely reflected calendar effects – we had two more working days compared to 2019, but this was well known by everyone.

The production reading was also much better than what high frequency indicators had suggested. Electricity consumption (commonly used as a gauge during the pandemic) was lacklustre in June. However, this was not due to a lasting recession among manufacturers – production in this segment grew by 0.9% YoY. This year, summer has been substantially colder than in 2019, likely reducing demand for electricity for air conditioning. Also, stronger production was driven by better exports.

We estimate that improved production in June should add an extra 0.5ppt to the overly pessimistic consensus estimate for 2Q GDP, or 0.23ppt to our forecast.

However, it's market services that will likely shape 2Q GDP growth. This sector is hardly covered in monthly data. In its pessimistic GDP projection, the National Bank of Poland likely assumed a major deterioration in demand for such services. The difference between the NBP and consensus with regards to the contribution of market services in 2Q GDP is over 2ppt, so a strong production reading should not change 2Q20 GDP expectations very much. The retail sales figures published tomorrow should provide a bit more insight with regards to 2Q20 GDP.

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