

## Poland: Sharp drop in March PMI with worse to come

Poland's PMI Manufacturing index recorded an historically sharp drop in March due to the country lockdown. The biggest contraction is expected in the next quarter. We expect GDP to contract by 4.5%YoY in 2020



Near empty streets in downtown Warsaw

Poland's PMI manufacturing index collapsed in March from 48.2 to 42.4pt, well below the consensus (45pt). Poland witnessed a sharper drop of sentiment compared to Germany, but lower than in other CEE countries. The Polish economy is less reliant on the automotive sector than Hungary or the Czech Republic, for example. Automakers are highly exposed to the Covid-19 epidemic.

Markit comments highlight the historically strongest monthly drop of three components: output, new orders and employment. The headline figure was also artificially boosted by the rise of a subindex encompassing delivery times. In normal conditions, longer delivery times signal strong demand, but its rise now is caused by capacity constraints. Firstly, we see a greater absence of staff, as people are more frequently using sick leave or care allowances. Secondly, manufacturers likely faced a shortage of components due to a breakdown of Asian supply chains. In our opinion, producers of electronics and electrical equipment are affected the most; China provides more than

40% of their imports.

We expect a relatively mild depression in industrial production in March. Firstly, calendar effects are positive. Secondly, the production sector was operating in normal conditions in the first two weeks. Some sectors, notably metal producers, received a greater number of orders due to lower output from China. Such patterns were visible in energy production data from the ENTSO-E system. Daily electricity output suggests that Poland and Germany suffered lower losses than other eurozone economies. Furthermore, declines in output were most prevalent in the last week of March.

Therefore the most painful contraction of economic activity should be seen in 2Q20. We expect full-year GDP to contract by 4.5% YoY in 2020. The recovery in the second half of the year is likely to be sluggish. The fear of the pandemic returning during the winter should limit any propensity to consume and invest either from households and companies.

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