

Polish production remains strong before second wave

The third quarter brought a robust recovery in Poland supporting our above-consensus GDP forecast for the period. However, for the fourth quarter, our GDP forecast is -3.5% YoY. But we are sticking to the view that the slowdown in 4Q20 will be shallower than what was seen in the second quarter



Construction of a bridge in Gdansk, Poland

The source of the surprise

Polish industrial production in September increased by 5.9% year-on-year vs. 1.5% YoY in August.

The data was higher than our above-consensus expectations (ING 3.8% YoY, consensus 3.4% YoY). Seasonally-adjusted production growth accelerated for the first time in four months, to 3.0% month-on-month in September from 0.5% MoM in August. Production remains only about 0.4% lower than in February 2020.

The September data shows the rebound in production was recorded in the following industrial groups:

1. **Durable consumer goods** such as furniture, cars and other goods reflected a high

propensity to consume before the second outbreak. Production increased by 21.2% YoY compared to 12.7% YoY in August;

2. **Capital goods** stopped falling for the first time since the spring lockdown, although here the rebound is subdued at just 2.6% YoY;
3. **Manufacturing** - the most export-oriented section of the Polish economy, accelerated strongly, to 7.2% YoY in September from 2.0% YoY in August, and the acceleration was visible in most segments.

5.9%

Growth of industrial production in Poland

In September (YoY)

Higher than expected

Bigger picture

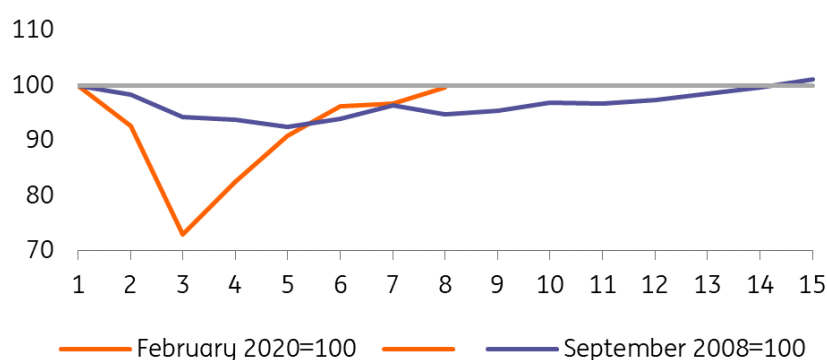
After a record monthly decline in production in March and April, the Polish economy experienced a very strong rebound in May-June and in the third quarter due to strong pent-up demand locally and among its main trading partners.

Other long term strengths were also important, diversified production and exports - a low reliance on the sensitive automotive sector and tourist services and low leverage of the economy before the pandemic.

Local fiscal policy has also delivered a generous fiscal impulse - so far around 6% of GDP has been paid to households and companies, and we estimate that up to 5% of GDP is possible in the second half of 2020 and into 2021.

Industry quickly returned to pre-pandemic levels, whereas during the global financial crisis, industrial production only returned to the levels seen in September 2008 after 14 months.

Industrial production, seasonally and working day adjusted



Implications for GDP

Today's data confirms our expectations that GDP growth in the third quarter was higher

than the consensus forecast. We don't know the September numbers for construction and retail sales, but we believe that GDP in 3Q20 was about -1.8% YoY, not -2.9% YoY as assumed by the existing consensus. This means that GDP in 3Q20 increased by about 8% quarter-on-quarter, compared to -8.9% QoQ in 2Q20.

For 4Q20, our GDP forecast is -3.5% YoY. But we are sticking to the view that the slowdown in 4Q20 will be shallower than in the second quarter

Due to the second wave of the pandemic, we expect that the economic recovery in Poland in 2020-21 is likely to be W-shaped. In 3Q20, the first phase of the recovery has come to an end, so we have the first "V" behind us. Most probably, in the fourth quarter, we will see another slowdown. In the September consensus, we have one of the lowest 4Q20 GDP forecasts, at -3.5% YoY.

So far, we are sticking to the view that the slowdown in 4Q20 will be shallower than in the second quarter, e.g. indexes of effective restrictions suggest that October may be relatively good for production, though we believe that the constraints associated with the second wave of Covid-19 will affect the economic situation in the coming months. For the time being, the restrictions have only affected hotels, restaurants and sports and recreation facilities, but the experience of other countries shows that the situation is becoming challenging by the day. This creates the risk of a downturn in both the Polish export markets and Poland itself.

Assuming there is no full lockdown, we maintain our full-year GDP forecast between -2.9 and -3.5% YoY.

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