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Economic Comment

1Q GDP: consumption hidden in services

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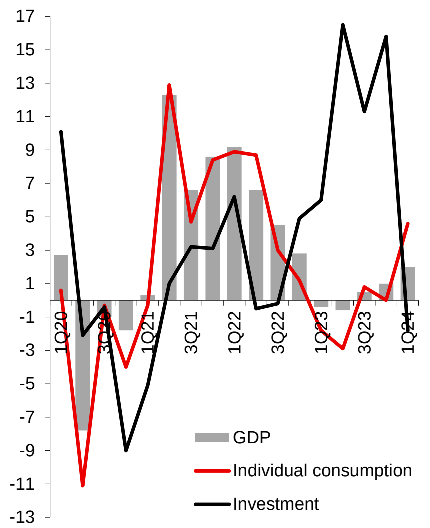
GDP growth in 1Q24 was 2.0% y/y and 0.5% q/q on a seasonally adjusted basis (both readings were slightly revised upward by 0.1 pp from the preliminary estimate), and its main driver was private consumption, which grew by 4.6% y/y (2.1% q/q s.a.), significantly stronger than expectations. It appears that household spending on services (not visible in the retail sales data) played a significant role in accelerating consumption growth early in the year. This supports our long-held view that 2024 will be a year of economic acceleration based mainly on the resurgence of private consumption. We expect the GDP growth to improve to c.3% y/y in the coming quarters.

The structure of GDP growth is not particularly favourable for disinflation prospects and supports the view that the services part of the CPI may be quite sticky in an environment of a strong labour market and elevated wage growth. The data will probably join the set of arguments used by the MPC to justify keeping interest rates "higher for longer".

In May, the Polish manufacturing PMI again surprised with a significant decline, but - due to the good performance of alternative indicators - we do not assume that this points to an imminent slump in industry.

GDP and its components, % y/y



Source: GUS, Santander

GDP accelerated mostly thanks to consumption

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GDP growth and its components (% y/y)

	2022	2023	1Q23	2Q23	3Q23	4Q23	1Q24
GDP	5.3	0.2	-0.4	-0.6	0.5	1.0	2.0
Domestic demand	5.2	-3.2	-4.8	-2.9	-5.2	-2.3	1.7
Total consumption	4.1	0.0	-1.6	-1.9	1.2	2.0	5.9
Private consumption	5.2	-0.9	-1.8	-2.9	0.8	0.0	4.6
Public consumption	0.3	2.9	-1.1	1.1	2.5	7.5	10.9
Gross accumulation	9.2	-14.1	-17.8	-5.6	-22.9	-10.3	-19.8
Fixed investment	4.9	13.1	6.0	16.5	11.3	15.8	-1.8
Stock building *	1.4	-5.3	-4.3	-3.3	-6.7	-6.3	-2.8
Net export *	0.2	3.3	4.4	1.8	4.6	2.4	0.4

* contribution to GDP growth (percentage points)

Source: GUS, Santander

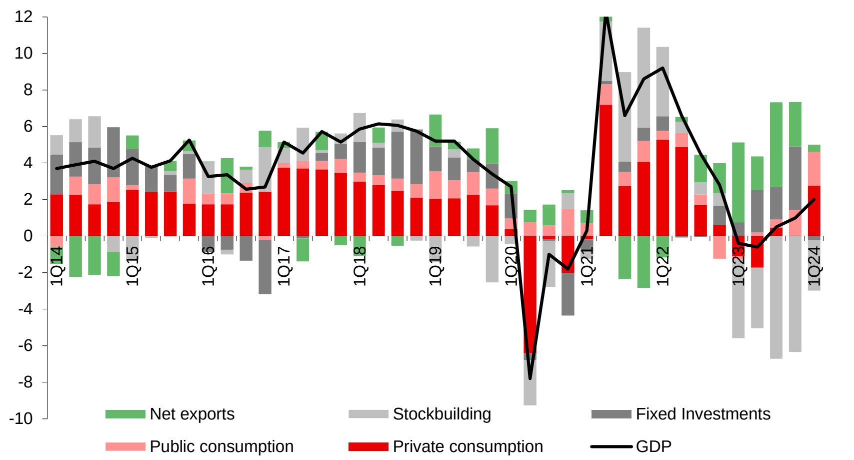
Government consumption grew by as much as 10.9% y/y in 1Q, the strongest since late 1996, which was probably helped by very strong public sector wage increases.

A big disappointment, however, was the investment data, which fell by 1.8% y/y in 1Q (-3% q/q s.a.), while we expected to see +6% y/y. Investment is being adversely affected by the end of the accounting period for the 2014-2020 EU financial framework. As a result, weak readings in this part of GDP may repeat in the coming quarters. Gradually, however, the investment outlook will improve with more active utilisation of EU funds from the new financial framework and the National Recovery Plan. Inventories continued to decline (with a

-2.8pp contribution to annual GDP growth), while net exports added 0.4pp to economic growth.

Such structure of GDP growth is not particularly favourable for disinflation prospects and supports the view that the services part of the CPI may be quite sticky in an environment of a strong labour market and elevated wage growth. The data will probably join the set of arguments used by the MPC to justify keeping interest rates "higher for longer" in Poland.

GDP growth and its components (% y/y)



Source: GUS, Santander

Value added increased by 1.7% y/y, the same as in 4Q23. GDP growth was therefore higher than value added growth for the first time since 2Q22, helped by strong VAT receipts in 1Q24.

The breakdown of supply-side growth came as somewhat of a surprise. Industrial value added grew by only 0.2% y/y, even though the monthly industrial production results seen in the course of 1Q hinted at a higher result. Construction performed very poorly (-10.9% y/y) and trade performed very well (4.4% y/y), which goes hand in hand with the performance of investment and private consumption on the demand side, respectively. We assume that industry and construction should record improved performance in the following quarters.

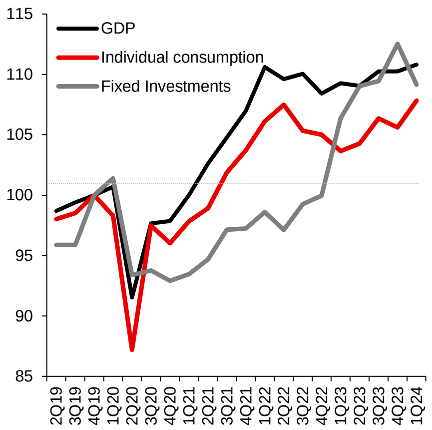
Significant contributions to total value added growth were also provided by real estate services (growing 7.7% y/y), professional activities (up 4.8% y/y) and public administration (up 4.2% y/y).

The second surprise decline of manufacturing PMI

Polish manufacturing PMI fell to 45.0 pts in May from 45.9 pts in April, contrary to our and the market's expectations for a significant increase. The main index, as well as most of the components, is now the lowest since October 2023. The accompanying report mentions a m/m deterioration in current output, new orders and employment. Germany and France were signalled as the economies most responsible for the depressed number of export orders. May appreciation of the zloty was also mentioned by exporters as an obstacle. Still, Polish manufacturers remained positive about future output, believing in Polish and EU-wide economic rebound and pointing to their investments in machinery and equipment. Input and output price marginally increased.

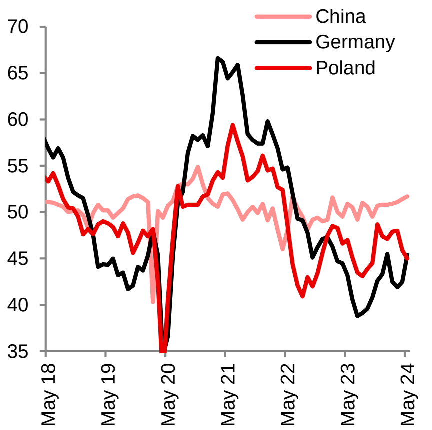
The Polish manufacturing PMI did not follow the strong upward move of its German counterpart in May (from 42.5 pts to 45.3 pts), which raises concerns about the prospects of Polish industry this year. However, the latest real data we received from the industrial sector were a very positive surprise (industrial production grew in April by 7.9% y/y, when the market was expecting 5.1%), industrial sentiment indicators in many parts of the world began to turn upwards, and the Polish economy will soon be boosted by the inflow of EU funds. Generally, in recent years, Polish manufacturing PMI evolved counter-cyclically to industrial production growth. We are not counting on a strong contribution from industry to economic growth this year, but we also do not think we will see a collapse of this sector.

GDP and its components, s.a. 4Q19=100



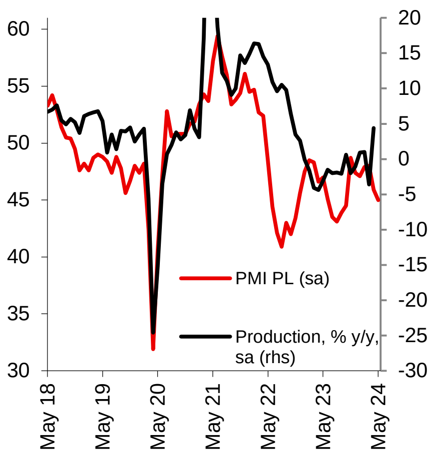
Source: GUS, Santander

Manufacturing PMIs,pts



Source: S&P Global, Santander

Manufacturing PMI vs. industrial production



Source: S&P Global, GUS, Santander

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