

Main economic trends

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2009-06-29

Central Statistical Office (GUS): Adverse trends less pronounced in Poland than in most EU countries

? With a GDP growth rate of 0.8% y/y in the first quarter of 2009, Poland was one of three EU countries showing positive growth – in Cyprus GDP increased by 1.6% and in Greece by 0.3%.

? In April 2009 sales in the industrial sector were much lower than in April 2008, retail sales were slightly lower and sales in the construction sector were slightly higher than a year before;

? CPI inflation was slightly higher in April than in March. This was mainly due to a rise in food prices and regulated prices of electricity;

? The year-on-year drop in exports was smaller in March than in February. The decrease in imports was sharper than in exports. As a result, in February and March Poland recorded a surplus on its current account;

? Jobs were on the decrease and unemployment was growing;

? As the economy was slowing, public revenue was down and the general government deficit was on the rise;

? Projection updates suggest that the situation may gradually stabilize and the economy may accelerate;

? Integration with the EU and the absorption of money from the EU's structural funds and cohesion fund are important factors shielding Poland from the effects of the global crisis;

? Anti-crisis programmes carried out by the government are also helping Poland weather the crisis.

Central Statistical Office (GUS): Adverse trends less pronounced in Poland than in most EU countries

In April, as the situation on global markets was deteriorating, adverse trends continued in Poland in the main sectors of the economy but were much less pronounced than in most EU countries. Sales in the industrial and retail sectors were still decreasing year on year. A further weakening of growth in the

construction and assembly output was noted. With a considerable acceleration of prices of consumer goods and services and the increase in nominal wages being slower than in previous months, growth in real wages and the purchasing power of old-age and disability pensions was smaller. Average employment in the corporate sector was also on the decrease. The number of registered unemployed dropped for the first time since October 2008 but was higher than a year before. The weaker financial condition of enterprises compared to last year, coupled with negative changes on the labour market, had an adverse impact on the position of the national budget. (GUS release, May 25, p. 3; www.stat.gov.pl)

National Bank of Poland (NBP) and Monetary Policy Council on reasons behind low economic activity

NBP, Monetary Policy Council: Data obtained since the Council's latest meeting indicate that recession is continuing in the United States and is deepening in the euro zone. However, part of the data concerning the United States may signal a slight increase in activity in this economy in the near future. Meanwhile, despite an improvement in some outlook indicators, growth projections for the euro zone, which is Poland's main trading partner, have been revised downwards again. Economic conditions have also deteriorated in Central and Eastern European countries. The latest data on the situation of the Polish economy confirm that economic activity is low. The drop in demand caused by recession abroad, slower growth in real wages, a deterioration in the financial situation of enterprises and more difficult access to credit will be contributing to an economic slowdown. Despite continued overliquidity in the banking system, borrowing costs remain at a relatively high level because of the high risk premium. Deteriorating business sentiment is a factor which additionally dampens demand. At the same time, data on labour market developments show that jobs are still on the decrease and that wage growth is gradually slowing, which is easing inflationary pressure. (Minutes of the Monetary Policy Council Meeting, May 27, 2009; www.nbp.pl)

Centre for Social and Economic Research (CASE) expects the economic situation to start improving in the third quarter of the year

CASE: According to our assessments, in the first quarter of 2009 the economy slid into recession. This is indicated by drops on the supply side on a quarterly and annual basis. Lending for the real economy virtually came to a halt in the first quarter – mainly due to supply-side reasons - and many businesses also gave up taking investment loans. On the demand side, a sharp drop was recorded in fixed

asset investment. And businesses were getting rid of excessive inventories at an even faster pace. For the second time, short-term projections worsened considerably compared to CASE's previous projection, although the last round of revisions of global growth forecasts has probably just ended. The deterioration in the outlook for our most important partners in the world raises question marks over the ability of the economy to reach the bottom of the recession in the second quarter of the year. We project that GDP will start growing slowly only in the third quarter. Since the fourth quarter the economic growth rate will be gradually increasing to reach the potential GDP growth rate at the end of 2010. Consumption, despite its weakening, will still be the driving force behind the economy thanks to a PIT reduction and increases in old-age pensions and wages. In 2010 exports and public investment in infrastructure will contribute to a faster rate of growth. We expect that the contribution of net exports will be positive. In the second half of 2010 a revival may begin in private investment. (CASE report, May 27, 2009; www.case.research.eu)

In the first quarter this year Poland's GDP was by 0.8% higher compared to the first quarter of 2008

Central Statistical Office (GUS): According to initial estimates, in the first quarter of 2009 real GDP was by 0.8% higher compared to a year before. Gross value added (GVA) in the national economy was higher by 1.2%. Gross value added was down by 5.9% in the industrial sector and up by 3.4% in the construction sector. In the service sector, gross value added was higher by 3.1% year on year, with an increase of 1.9% in trade and repairs, and an increase of 0.3% in transport, warehousing and communications. Domestic demand was lower by 1.0%, with GDP growth at 0.8%. Total consumption was higher by 3.9%, individual consumption by 3.3% and public consumption by 6.1%. Gross fixed capital formation was higher by 1.2%. The investment rate – the ratio of gross fixed capital formation to GDP in current prices – reached 14.9% against 15.1% a year before. (GUS release, May 29, p. 2 and 3; www.stat.gov.pl)

The drop in GDP growth in the first quarter of 2009 was smaller in Poland than in most other EU-27 countries. According to revised forecasts from the IMF, European Commission and OECD, in 2010 Poland's GDP growth may be positive and higher than in most other EU-27 countries.

Industrial sales dropped again in April 2009 in a downward trend which continued since October 2008. The decrease was much larger than in March. It was coupled with a drop in employment and a slowing growth

in wages.

In April 2009 industrial production was down by 12.4% compared to a drop of 2% in March. The drop in the energy sector reached 7.6%; in mining 21.1%. The situation in the manufacturing sector worsened compared to March – in March manufacturing output dropped by 0.6%, in April by 12.6%. In the four months to April 2009 the decrease in output amounted to 10%. Sales of supplies and investment goods were down by respectively 15.5% and 14.1% year on year. The drop in sales of consumer non-durables and durables was slight – respectively 2.6% and 0.3%.

In the four months to April 2009 all major segments of the manufacturing industry saw a decline compared to a year before. However, five segments of the market – producers of food and beverages, electrical equipment, computers and electronics, and transport equipment - recorded a rise or a very slight drop in sales. Producers of metals, machines, metal products, motor vehicles, clothes and oil products recorded sharp drops in sales.

In January-April 2009 labour productivity in the industrial sector measured by sales per employee was by 6.3% lower year on year, with employment down by 4.1% and the average gross monthly wage up by 5.5%.

In May 2009 the outlook for the manufacturing sector was still negative – it was poorer than in any May in the past six years - but better than in April. Still, the outlook was worse than in any April over the past nine years. 23% of the surveyed businesses signalled a deterioration in business conditions and 18% expected an improvement.

Expectations for books of orders were less pessimistic than in April. Despite the slight increase in production expected in the next three months, businesses did not signal a possible improvement in their financial situation. Production and employment were still pessimistic but much better in April than in previous months. Stocks of finished products were still regarded as too high. Manufacturers planned to reduce employment, though not as much as they had projected in April. They also expected a small decrease in prices.

In May, the outlook was negative across the manufacturing sector but small and medium-sized business were more pessimistic than large ones. Expectations for output volumes over the next three months differed between small businesses, where they were still pessimistic, and large and medium-sized businesses, where they improved and were positive. In consequence, it may be expected that large and medium-sized businesses will be able to repay their debts with shorter delays

than small ones.

In May, assessments were more optimistic than in April in most segments of the manufacturing industry, though in many cases the outlook was still negative. Producers of clothes, textiles, metals and metal products, machines and devices, transport equipment, electrical equipment, and businesses operating in the printing industry were the most pessimistic.

Producers of pharmaceuticals, foodstuffs, beverages, tobacco products and chemicals had a positive outlook. Producers of motor vehicles were less pessimistic than in April.