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# Economic Comment

## Flattening recovery

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Retail sales in constant prices slowed to 0.5% y/y in August from 3.0% y/y in July and were below expectations. Details confirm that the postponed demand for durables that has driven the recovery is waning. We are expecting retail sales to record a rather paltry growth in the months to come as delayed effects of Covid-19 lockdown and labour market weakness will be becoming more apparent. In August Polish construction output dropped by 12.1% y/y, clearly below market expectations again - a rebound from declines of c.10% y/y or more is not going to come as easily as in industry.

### Postponed demand effect drying out

Retail sales in constant prices slowed to 0.5% y/y in August from 3.0% y/y in July and were below expectations (we: 2.7%, market: 2.6%). Sales of durables decelerated to 3.4% from 8.2% y/y in July, while non-durables to -0.7% from 1.4% y/y.

Slowdown in sales was generally broad-based, with the most significant decelerations in cars (to -5.0% y/y from +0.7% y/y) and furniture/household appliances (to 10.2% y/y from 15.8% y/y), in line with our call that the rebound was partially driven by postponed demand and the pace of improvement will be slowing down. Improvement was recorded only in case of fuels (-2.2% vs -2.8% in July) and pharmaceuticals (0.8% y/y vs 0.0% in July).

Share of internet sales in total retail sales declined to 6.1% in August from 6.5% in July. Peak was recorded in April at 11.9%, while pre-covid average for January and February sits at 5.6%. As we stated earlier, it seems that the epidemic effect on consumer behaviour did not prove permanent.

We are expecting retail sales to record a rather paltry growth in the months to come as delayed effects of Covid-19 lockdown and labour market weakness will be becoming more apparent.

### Construction output growth still without a bottom

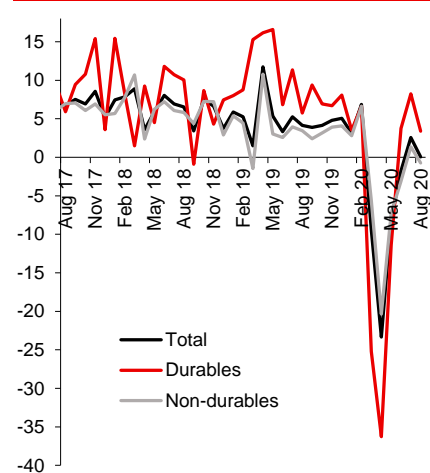
In August Polish construction output dropped by 12.1% y/y, more than the market had expected (-7.9%) and close to our call (-11.7%). This means a further deterioration after the surprisingly negative July print of -10.9% y/y (vs -5.5% market consensus at that time). The pandemic-related adjustment that started to appear after March affects construction production in a different way than industrial production (with a clear initial hit and a quick recovery), as enterprise investments were put on hold or cancelled. In SA terms, the decline was only 0.1% m/m while in the previous months it was 3-4% m/m. We believed even before the pandemic that this year construction sector would register negative y/y growth, coronavirus only added to the other circumstances that suggested the decline.

Civil engineering remained the most depressed component, at -16.9% y/y. As in the previous months, investment activities were again reduced to a larger extent (-15.9% y/y) than repairs (-5.6%). We should not expect a clear rebound and a V-shaped chart, like in the case of industrial output – construction output declines of around 10% y/y or more may remain in our view even until the middle of next year.

### Housing market: completions no longer growing y/y

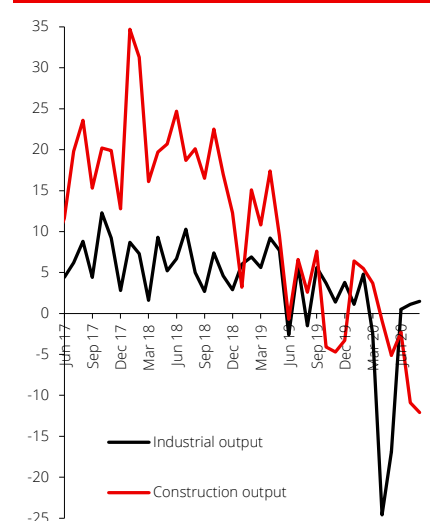
After a quite active July on the housing market, in August the growth of the number of completed flats dropped from +28.7% y/y to -1.8% y/y, the number of new permits fell y/y again (-5.6% y/y) after two better months and home starts kept falling (-0.4% y/y). Our running projects indicator fell a bit more after reaching the lowest level since 2016. The outlook for the contribution of housing activity to construction output seems negative.

Retail sales, % y/y



Source: GUS, Santander

Industrial and construction output, % y/y

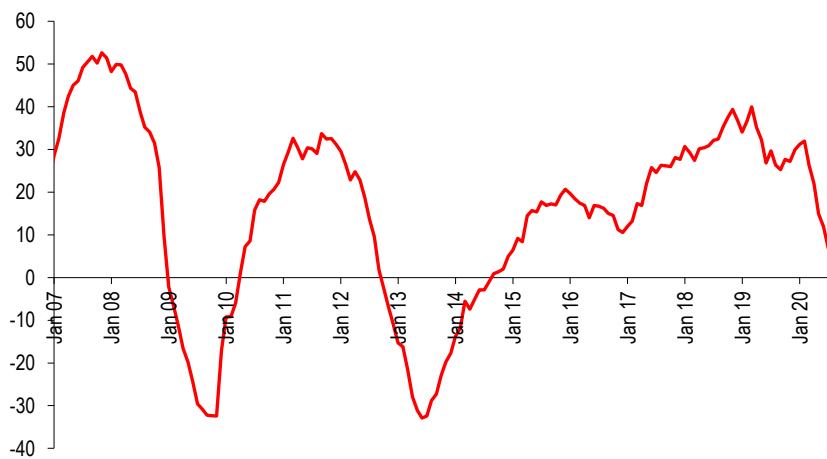


Source: GUS, Santander

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### Proxy measure of running projects\* in housing construction



\*12M running sum of building permits minus dwelling completions  
Source: GUS, Santander

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