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Economic Comment

Weaker sales and construction in holiday month

Piotr Bielski, +48 22 534 18 87, piotr.bielski@santander.pl

Grzegorz Ogonek, +48 22 534 18 84, grzegorz.ogonek@santander.pl

Construction output growth slowed to 3.3% y/y in July, missing market consensus 7.1% and our forecast 6.7% y/y. The result looks a bit disappointing and suggests that a revival in construction sector that started earlier this year has stalled due to poor activity in civil engineering. Data from the housing market confirmed that the market remains in rapid expansion mode. We think that the activity in the construction sector should resume recovery later this year, as the broad investment activity will be picking up. Retail sales rose in July by just 3.9% y/y, below forecasts (we: 5.5%, market: 5.1%), durables and clothes were the source of disappointment - It seems that we underestimated the Poles' urge to go on holidays after the lockdowns, away from shopping malls. Sales should accelerate from now. Sectoral business sentiment indicators were mostly stable in August.

Construction output stalled

Construction output growth slowed to 3.3% y/y in July, missing market consensus 7.1% and our forecast 6.7% y/y. After seasonal adjustment production rose 5.2% y/y (fastest since January 2020) and fell 1.3% m/m. As compared to July 2019, construction output growth was -8.1% (vs. +2.0% in June) or after seasonal adjustment -5.4% (vs -2.9% in June). The result looks a bit disappointing and suggests that a revival in construction sector that started earlier this year has stalled. The data suggest that construction of buildings was doing fine (+5.7% y/y), which corresponds to the boom in housing sector, while civil engineering was the main source of the slowdown (-5.9% y/y), apparently related to the stagnating public investments (the data showed investment works at 0% y/y despite very low base in this segment). We think that the activity in the construction sector should resume recovery later this year, as the broad investment activity will be picking up.

Housing market still in rapid expansion mode

Data from the housing market confirmed that the market remains in rapid expansion mode. The number of houses completed stabilised in July at the high level 18k units per month, the number of new building permits at almost 30k/month, the new house starts at c. 25k/month. Our estimate of the running projects indicator rose in July to 103k, the highest level since mid-2008 construction boom. We expect the expansion in this sector to continue, supported by high households' demand. Quickly growing supply will probably not prevent further rise of house prices, as the costs of materials are going up and demand still seems to be outstripping the supply.

Holiday break in retail sales

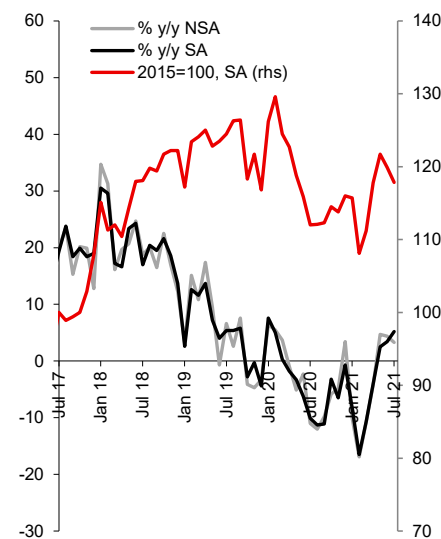
Retail sales rose in July by just 3.9% y/y, below forecasts (we: 5.5%, market: 5.1%). The decline from June's 8.6% y/y was caused to a large extent by base effect and, despite the relatively large difference vs. expectations, does not need to imply a deterioration in private consumption. Growth of retail sales calculated vs. the corresponding month of 2019 was 7.0%, while in June it was 7.2%.

The data surprised us to the downside when it comes to durables goods sales (furniture, cars, household appliances, consumer electronics) and clothes while food and the category that covers purchases in chainstores were stronger than we had expected. Thus, it seems that we underestimated the Poles' urge to go on holidays after the lockdowns, away from shopping malls.

We expect the 2H21 average retail sales growth to reach 9.5% y/y with next readings coming much above the July print. The marginally weaker July employment growth does not change our view that households' disposable incomes will remain strong.

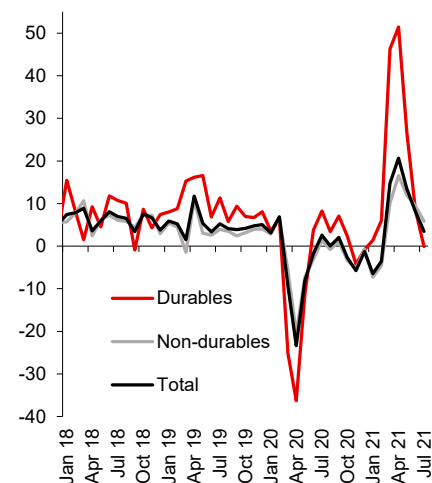
Retail sales deflator rose in July to 4.8% y/y from 4.1% y/y in June and 0% y/y still in January and this is the highest reading since at least 2012 (from when comparable data are available).

Construction output



Source: GUS, Santander

Retail sales in constant prices, %/y



Source: GUS, Santander

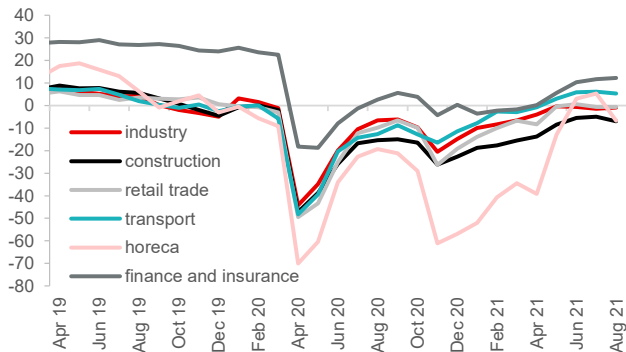
Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 22 534 18 87
 Marcin Luźniński +48 22 534 18 85
 Wojciech Mazurkiewicz +48 22 534 18 86
 Grzegorz Ogonek +48 22 534 19 23

Business sentiment remained stable in August

Sectoral business sentiment indicators were mostly stable in August as somewhat better assessment of current conditions was offset by less upbeat expectations. Only in wholesale trade and horeca (hotels, restaurants and catering) the fall of expectations outweighed the improving current conditions of doing business.

Sectoral business sentiment indexes, NSA



Source: GUS, Santander

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.