

Economic Comment

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Data above forecasts, again

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New pieces of November data proved better than forecast. Retail sales rose by 1.6% y/y, construction production by 4% y/y. In both cases, a deceleration was expected; meanwhile, the data indicate greater resilience in the economy, although still consistent with a slowdown in economic activity in 4Q. Consumer sentiment also improved in December, which, however, we view more as a correction of exaggerated pessimism than as a harbinger of a revival in consumer spending. A detailed analysis of the data points to suspicious behaviour of deflators in some categories (e.g. fuel sales), which may imply that some of these positive surprises are at least to some extent due to statistical office's problems with correct distinction between real and nominal categories (doubts about deflators also apply, for example, to yesterday's exceptionally strong energy production data). Nevertheless, until (if) the data are revised, stronger readings shift the balance of risks for economic growth forecasts (but also for inflation) slightly upwards.

Retail sales got more fuel

November retail sales climbed by 1.6% y/y, more than expected (market: 0.3%, we: -0.2%).

Acceleration versus October (0.7% y/y) was mostly driven by a very good result of fuel sales, which – in monthly terms – recorded the best result in November since comparable data are available (2013). This category added to the headline 1.2pp more than in the previous month. Let us note that fuels were strongly underperforming in March-October period, and we do not see much reasons for a sudden improvement in November. Also, we are rather suspicious about fuels sales data as its deflator has clearly decoupled from CPI-reported price changes. We think that GUS is having some hard time with correct estimates of price changes and this is translating into erratic behaviour of some categories.

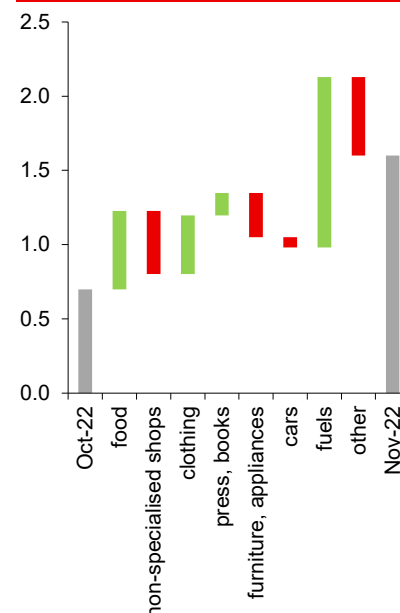
Sales in other categories were roughly in line with our expectations, with further deterioration in durable goods (-7.1% y/y in November vs -5.2% y/y in October) and fairly stable situation in first need goods. Food sales rose by 4.8% y/y vs 2.4% y/y in October, clothing improved to 18.9% y/y from 14.3% y/y, other sales in non-specialised shops (mainly supermarkets and discounts) slowed to 15.0% y/y from 18.2% y/y, household appliances fell by -7.6% y/y versus -5.0% y/y in October, car sales declined by 6.4% y/y versus decline by 5.5% y/y in October.

These numbers suggest a further weakening of private consumption in 4Q22. We think that the upcoming quarters will be challenging for consumers, given deteriorating purchasing power. On the other hand, consumer confidence has improved, but remains depressed.

Consumer confidence bottoming out

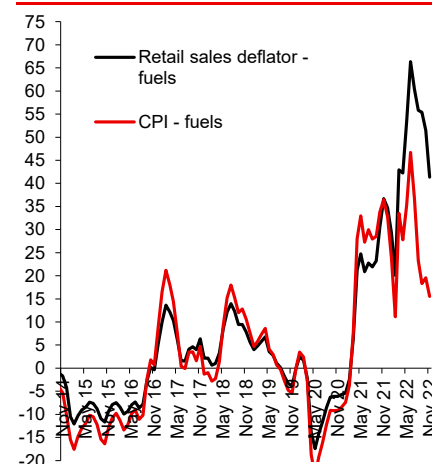
Consumer confidence improved markedly in December, for the second straight month. Both current and leading indicators of consumer confidence rose to their highest levels since July. Most of components improved as well, including the assessment of households' financial situation, country's economic situation, scope for large expenditures. Households' perceived ability to save money also increased a lot, to its highest since February. The improvement of consumers' moods is a positive sign for the private consumption outlook. Yet, it has to be born in mind that in the last few months consumer confidence was terribly bad (worse than in the middle of Covid-19 lockdown) and the indicators most likely exaggerated the potential consumption deterioration. So, we treat the current rebound of indicators more as a correction of excessive pessimism than a signal of looming consumption revival. Especially given that despite the improvement, indices remain at historically low levels.

Retail sales, change breakdown, % y/y



Source: GUS, Santander

Fuels prices in retail sales and in CPI, % y/y



Source: GUS, Santander

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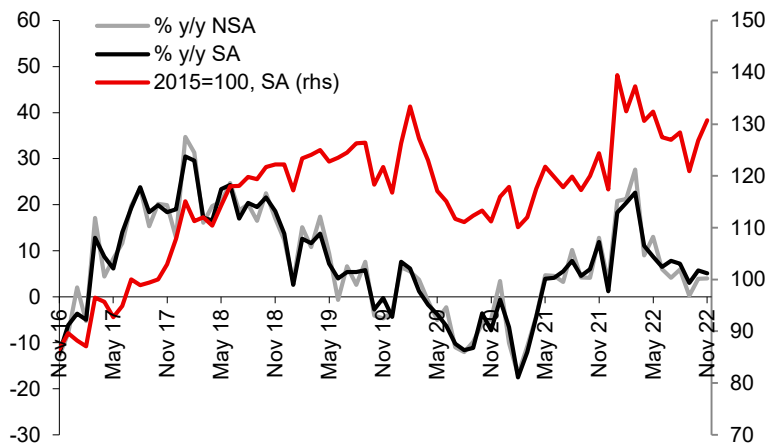
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Construction improved, but not thanks to housing

Construction production increased in November by 9.1% m/m and 4.0% y/y, exceeding market consensus (-1.6% y/y) and our forecast (-2.2% y/y). Seasonally adjusted output increased 5.1% y/y and 2.5% m/m. It was the second month in a row of positive surprise from this sector. While in October it could have been attributed largely to unusually warm and dry weather, in November it was not so much the case – average temperature was lower than in the last few years. The production rise was particularly strong in engineering and specialised construction work, which suggests that infrastructure investments could be doing fine in 4Q22. Housing construction is in decline, unsurprisingly, amid deepening slump in mortgage market, which damaged households' demand for new houses.

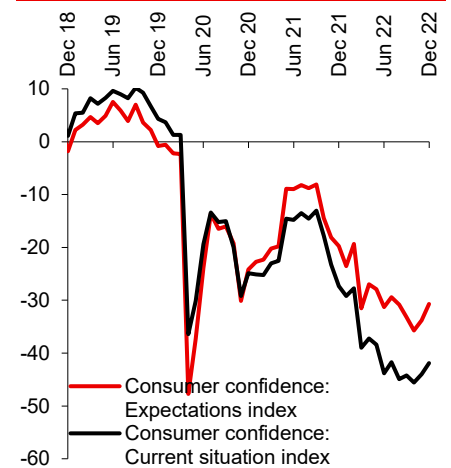
Construction output



Source: GUS, Santander

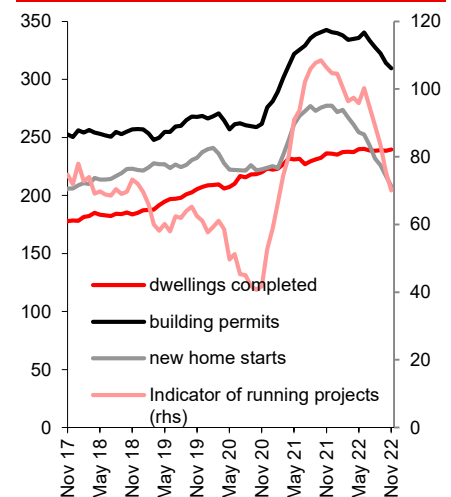
In November, the number of completed dwellings increased 2.7% y/y (-1.4% y/y in October), with building permits down 19.1% y/y (-28.7% y/y in October) and construction starts down 42.8% y/y (-40.1% y/y in October). Market activity continues to decline and our estimate of the running projects indicator fell for the fifth consecutive month and was the lowest since February 2021.

Consumer confidence, pts.



Source: GUS, Santander

Polish housing market tendencies, 12M moving sum, in thousand units



Source: GUS, Santander

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