CEE Economics

Poland

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Economic Comment

Retail sales, construction – no rebound, no collapse

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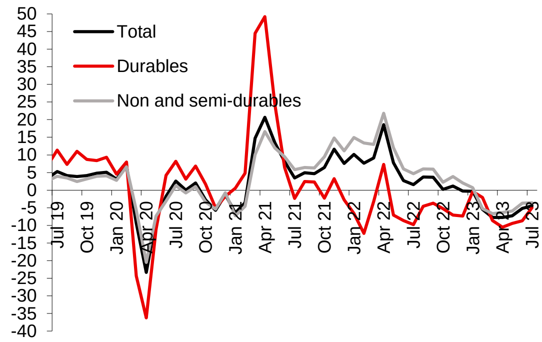
Retail sales and construction output data for July were slightly weaker than market expectations, but close to our forecasts. Real retail sales growth accelerated to -4% y/y (+1.3% m/m sa) from -4.7% y/y. The improvement in annual growth was mainly due to better trends in sales of durable goods. In construction output, the positive result in annual growth (1.1% y/y, -0.4% m/m sa) is due to the civil engineering sector, i.e. infrastructure investments. At the same time, the construction of buildings remains depressed, which is unlikely to change soon given the stabilisation of housing data at a low level. The data for July point to a weak start to 3Q and pose downside risks to our 3Q GDP estimate of 0.5% y/y and full-year forecast of 1% y/y. Data favour interest rate cuts in Poland, although we maintain our view that there is still no justification for the scale of rate cuts priced in by the market.

Retail sales supported by durables

Retail sales improved to -4.0% y/y in July from -4.7% y/y in June, roughly in line with expectations (we: -3.9% y/y, market: -3.7% y/y). In seasonally adjusted terms, sales rose by 1.3% m/m. Quite a strong performance was recorded by fuels (-5.5% y/y vs -8.3% y/y in June), cars (+3.8% y/y after -1.9% y/y in June, but statistical base effect played an important role here) and household appliances (-11.6% y/y vs -14.4% y/y in June). The improvement in the latter is especially positive, given that it has recorded sluggishness for months. On the other hand, sales of clothing, food and in non-specialised shops (supermarkets) were below our expectations. Sales of durable goods improved to -5.0% y/y from -8.7% y/y in June, while non-durables remained fairly stable at -3.6% y/y vs -3.7% y/y one month before.

In general, the retail sales data point to some slow improvement and we are expecting it to continue in the upcoming months, driven by high consumer confidence, falling inflation and still robust labour market situation (despite a bit weaker data yesterday).

Retail sales, durables and non-durables, % y/y



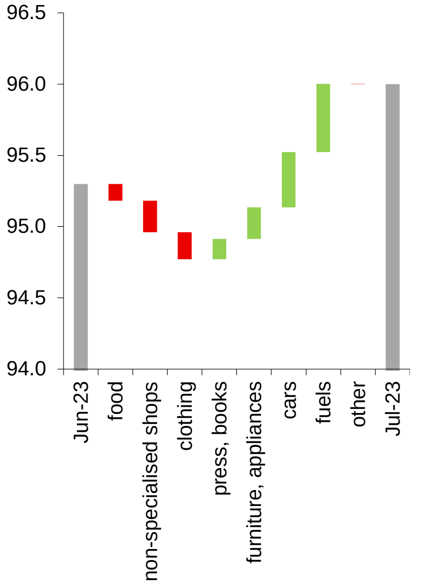
Source: GUS, Santander

Construction output – positives and negatives

Construction output rose 1.1% y/y in July, a bit less than in June 1.5% y/y. The result is weaker than market expectations (2.6% y/y) and our estimate at 1.4% y/y. On the one hand, the annual growth rates have managed to stay positive recently, on the other hand, seasonally adjusted m/m performance does not indicate any gain in construction output momentum (fifth negative print in a row, July at -0.4% m/m after -1.3% m/m in June).

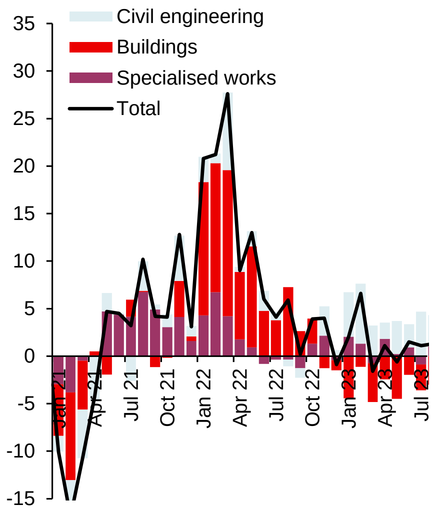
Civil engineering remains the main pillar of construction growth (+11.8% y/y, up from 5.9%) while construction of buildings stayed below zero in y/y terms for the ninth month. (-7.8%

Breakdown of retail sales growth, corresponding period of the previous year = 100



Source: GUS, Santander

Construction output, %y/y, growth structure



Source: GUS, Santander

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y/y, -5.7% previously). Specialised works remain a volatile component, this time dropping 3.4% y/y after +3.8% in June). Positive annual growth of construction was maintained thanks to investment works (+7.4% y/y), maintenance and repair works were down 7.6% y/y.

In our view, construction output growth may stay close to zero y/y throughout 2H of the year, leading to a slightly positive full year result.

Low-level stabilization in the housing market

In July, 14.5k new dwellings were completed, which is 3.7k fewer than in June (-20.2% m/m) and 3.0k fewer than in July 2022 (-16.9% y/y). This means that a total of 126.4k dwellings have been delivered since the beginning of the year, 0.2% less than in the same period of 2022.

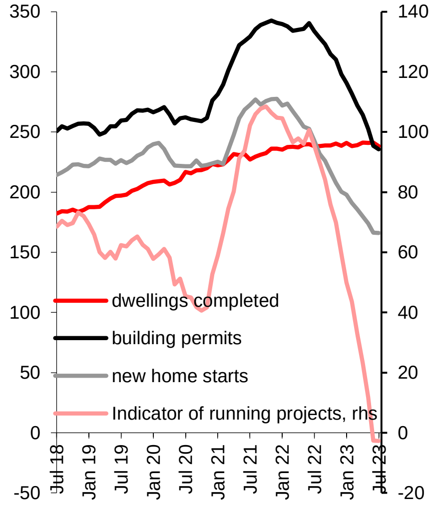
A better signal was sent by the numbers of building permits granted and constructions started. On an annual basis, the growth rates of permits issued and construction starts improved markedly, to -14.1% y/y (vs. -40.2% y/y in June) and -0.5% y/y (vs. -32.8% y/y), respectively. It should be noted, however, that the sharp change in growth rates compared to June is primarily a result of a strong statistical base effect. On a monthly basis, the data point rather to stabilisation, as also suggested by the projects-in-progress index, which fell to -2.7 pts from -2.6 pts in June.

The low number of completed dwellings and the stabilisation of the number of new housing investments at a reduced level amid the revival of demand (evident in the increase in mortgage sales) may translate into price increases in the property market, which may in turn generate an impulse to increase new construction investments with some delay.

Agricultural prices down further

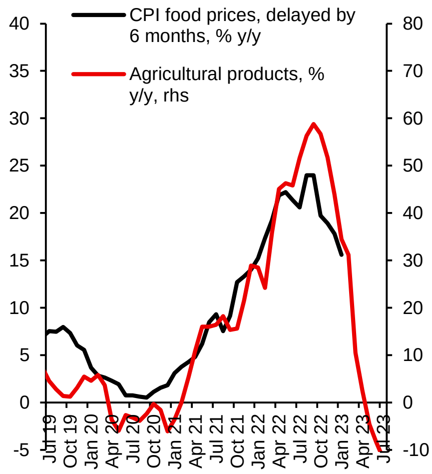
Agricultural prices fell by 2.0% m/m and 11.8% y/y in July. The downward trends were fairly widely observed and included cereals, potatoes, as well as meat and milk. These data suggest a further reduction in food price dynamics in the coming months, although we believe that the agricultural drought may increase fruit and vegetable prices (these categories are not widely represented in the GUS agricultural prices statistics).

Trends in housing market, 12M moving sums, thousands



Source: GUS, Santander

Agricultural products vs retail food prices, % y/y



Source: GUS, Santander