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Economic Comment

Weak retail sales and wages, strong output

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December data from the Polish economy gave mixed signals about its current shape. A downward surprise was seen in wage growth (9.6% y/y) and retail sales (-2.3% y/y, -2.9% m/m sa), the former attributable, among other things, to lower bonuses in the mining and energy sectors as well as distorted activity in transport, and the latter to fairly good weather. On the other hand, industrial and construction production surprised strongly on the upside (-3.9% y/y, +2.9% m/m sa and +14% y/y and 8.5% m/m sa respectively) with a positive impact from energy production and selected export industries.

The December data complete the economic picture for 4Q and, in our view, support the estimate of end-year GDP growth of at least 2.5% y/y, above market expectations. We continue to expect economic growth to accelerate to c.3% in 2024, driven primarily by domestic demand.

From a monetary policy perspective, however, today's dose of data is not a reason to increase concerns about inflation persistence and may provide another argument for financial market investors not to give up on pricing in interest rate cuts. Nevertheless, our view is that policy rates will remain unchanged for most of this year.

Major disappointment in retail sales

Retail sales slowed in December to -2.3% y/y from -0.3% y/y in November, strongly below forecasts (us: +1.2% y/y, market: +0.9% y/y). Durables and non-durables slowed both to -2.3% y/y from -0.9% y/y and -0.1% y/y in November, respectively.

In seasonally-adjusted terms, sales declined by 2.9% m/m and this was the weakest result since July.

Many categories were somewhat weaker than we expected, with an exemption of cars and pharmaceuticals, which remained quite robust. Sales of pharmaceuticals were clearly supported by winter season and heightened number of infections. The biggest disappointment was delivered by sales of clothing, food, and in non-specialised stores (supermarkets). However, we would rather attribute these to changing consumption patterns than to the weakness in consumer demand. Clothing sales are strongly dependent on temperatures. As December was relatively mild, purchases of winter collections could have been undermined. Meanwhile, lower sales in food shops and supermarkets suggest relatively lower food-related sales in connection to holidays. We suggest this could mean a change in consumer behaviour, as these three categories surprise to the downside for the second year in a row (in case of clothing sales this even yielded an increase in annual terms).

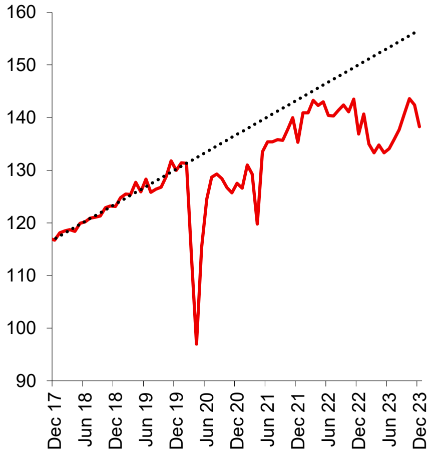
Mild December was also conducive to lower fuel sales (on the other hand, January is colder than year before, so a reversal of this effect is possible soon).

Even though the December numbers are a negative disappointment, we still believe that the environment (sound labour market, high consumer optimism, wage hikes in the public sector, high indexation of social benefits) remains positive for strong consumption growth in the upcoming quarters

Wage growth weakening, slight recovery in employment

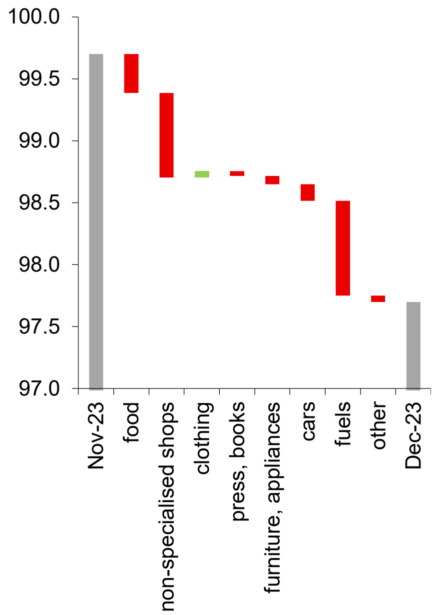
Wage growth in the corporate sector decelerated in December to 9.6% y/y from 11.8% y/y in November, which was well below our estimate and market consensus at 11.4% y/y. Downside surprises came in most of categories with largest in mining and utilities, which might have resulted from earlier payments of bonuses, which usually take place in December. A sizable negative surprise was also recorded in transportation and storage,

Retail sales, index



Source: GUS,, Santander

Breakdown of change in annual growth rates of retail sales, % y/y



Source: GUS, Santander

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reflecting broader weakness in domestic and foreign trade, and perhaps border blockade. Wage growth surprised to the downside also in manufacturing as it slowed down to 10.5% y/y. Lowest wage growth rate remained in construction and transport at 6.3% y/y.

Employment growth recovered to -0.1% y/y from -0.2% y/y (0% m/m) in November, which was marginally above market consensus at -0.2% y/y. In nominal values employment in the corporate sector with 10 or more employed persons increased by 1k vs. our estimate of 5k decline. There was a further employment reduction in manufacturing sector with job increases in trade and repairs and construction.

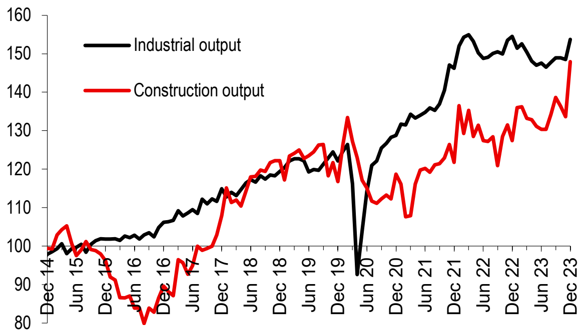
We presume that positive trends in the labour market will hold in the next quarters as economy is set to recover, which will support demand for labour in general. Labour market situation in construction will improve with some delay with decline in interest rates, while in manufacturing along with some improvement in external demand in 2H this year. Wage growth will likely stay relatively high amid still low unemployment rate.

Industrial output beats expectations in December

Industrial production fell -3.9% y/y vs market consensus -5.8% y/y and our forecast -5.3% y/y. It was much lower than the previous print of -0.3% y/y (revised upwards from -0.7%), but that was due to working days differences. The seasonally adjusted m/m growth was +2.9%, the strongest since January 2022 and much stronger than the production rebound seen in Aug-Sep (taken together worth 1.6%). One thing to note is that this time there was a pretty large positive contribution from output of utilities rising 11.4% y/y, while manufacturing output was down 5.6% y/y. On the other hand, in December some improvement showed up in other transport vehicles, electrical equipment, machinery and equipment, as well as electronics – these are mostly export-oriented industries and were a drag on the headline output print in previous months. Unusually weak performance was seen in apparel, tobacco products, pharmaceuticals, chemical products and plastic.

We expect to see moderate positive annual growth in industrial output throughout most of 2024, averaging at 3-5%, but it will depend to a large extent on the performance of the Eurozone economy.

Seasonally adjusted output (2015=100)



Source: GUS, Santander

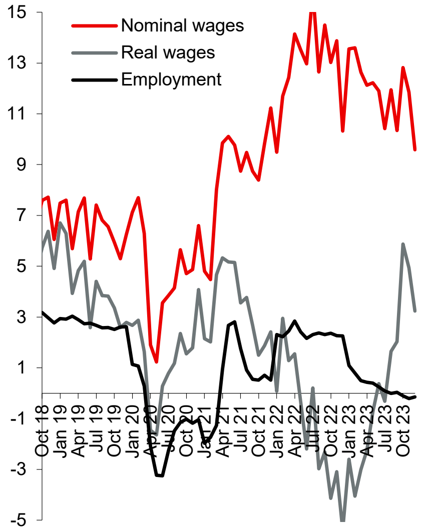
Strong finish of 2023 in construction output

In December, Polish construction output rose by 14.0% y/y, beating market expectations at 5.3% y/y and our 2.7% call, and rising well above the November growth of 3.9% y/y. In seasonally-adjusted terms this translated to a rebound of 8.5% m/m after two months of declines worth c.2% each. Acceleration of construction output growth was thanks to civil engineering works rising 19.2% y/y. construction of buildings was up 13.4% y/y and specialised works up 4.7% y/y. The focus of construction sector output was clearly on investment projects (output up 46.6% y/y) rather than maintenance and repairs (-25.7% y/y). We expect construction output to keep growing in 2024 despite the likely decline of demand coming from local governments after the April elections, but in general there is some upside risk to our forecast of average growth of c.6%.

Further gradual adjustment in the housing market

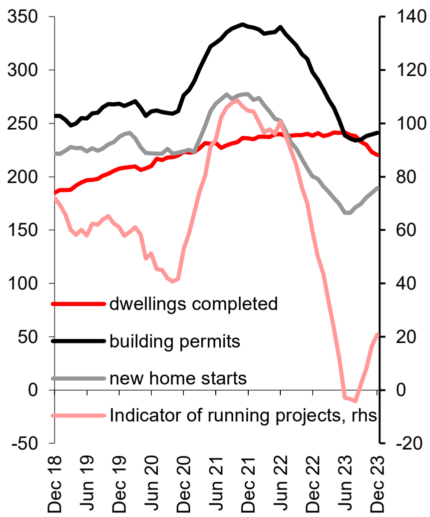
In December, 20.8k dwellings were completed, 11.7% less than a year ago. Building permits were up 7.6% y/y, while the number of construction projects started in December equalled 14.4k, over 40% more than in the previous year. Dwellings under construction registered another drop, this time from 808.2k in November to 801.8k, but their annual growth rate continues to slowly accelerate, rising from -4.6% y/y to -3.8% y/y. This was accompanied by a

Corporate wage, real wage, employment growth, % y/y



Source: GUS, Santander

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



Source: GUS, Santander

further increase in our proxy measure of running housing construction projects, which rose to 20.7 pts from 16.5 pts in November, the highest since May. Overall, the newest data remain in line with the trend observed over the last couple of months and point to a further gradual revival of the supply side of the housing market. Still, the revival will need more time to properly develop, as evidenced by the annual dynamics of both the completed dwellings and the dwellings under construction, which remain negative. Until that adjustment is visible, even though demand in the housing market may somewhat normalize over the next months due to the end of the "Safe 2% Credit" programme, house prices should be expected to continue rising.

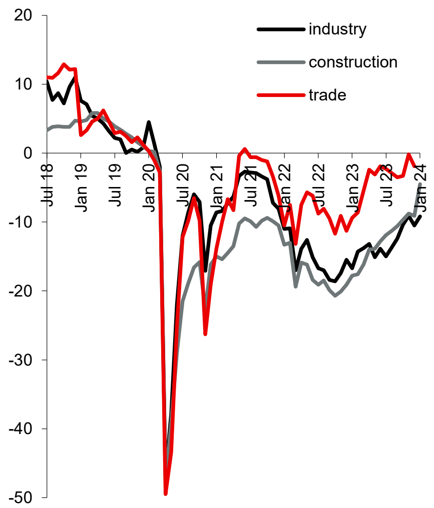
Better sentiment in industry and construction

In January, the sectoral business sentiment survey once more did not show a unilaterally positive picture. Sectors which registered worse sentiment last month, i.e. industry and construction, this time were the ones whose sentiment indicators recorded the highest increases. However, retail trade and horeca, both of which were characterised by better sentiment in December, were more pessimistic in January, mainly due to significantly worse expectations. Overall, however, while the newest data suggest to keep an eye on retail sales in the coming months, the improvement in industry and construction is a welcome sight and points to a further rebound in real data.

Agricultural prices down in December

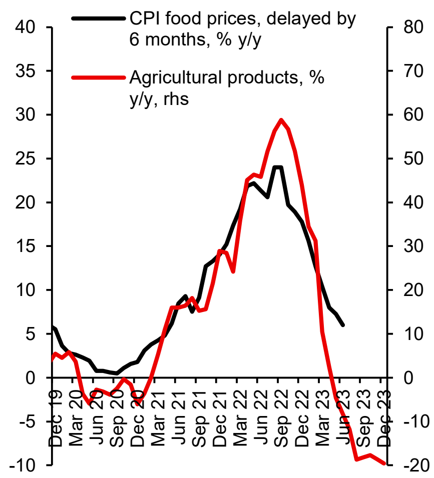
In December, prices in agriculture decreased by 1.0% m/m. This was mainly due to reductions in meat prices, while cereal prices stabilised and maize, potato and milk prices increased. Lower wholesale prices will translate into continued moderate price increases on the retail market.

GUS business climate indicators



Source: GUS, Santander

Retail food prices vs wholesale agricultural products prices, % y/y



Source: GUS, Santander