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Economic Comment

Retail sales rebound gained momentum

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Retail sales surprised to the upside in February and printed +6.1% y/y vs. market consensus at 4.9% y/y, our forecast at 4.3% y/y and January reading at 3.2% y/y. Seasonally-adjusted numbers showed a spike by 2.9% m/m. Improvement in annual growth rate was recorded in almost all categories of sales, especially in durable goods. This is the second positive surprise in a row. We think March will be even stronger, additionally supported by Easter effect and shopping ahead of the rise of VAT rate on food. The data clearly supports our call for consumption-driven recovery in 2024. Construction output surprised negatively for the second time in a row - in February it dropped 4.9% y/y. These may be temporary problems given that the sentiment in the sector keeps going up and EU funds have been unblocked. What is more, the housing market data showed that for the first time since mid-2023 the number of completed dwellings rose in annual terms.

Strong retail sales, durables outperform

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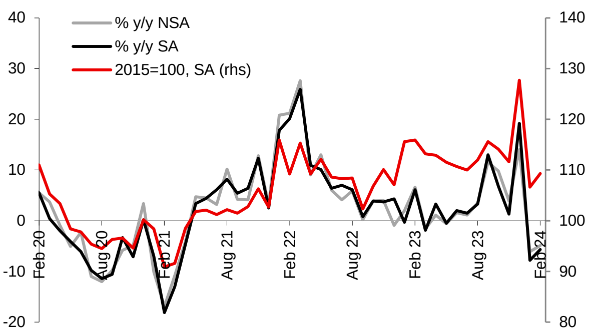
Particularly strong tendencies are visible in durable goods, which advanced to 10.6% y/y from 0.5% y/y in January (highest rate since the post-pandemic rebound in 2021), with car sales accelerating to 26.6% y/y from 22.0% y/y and household appliances to -5.2% y/y from -16.8% y/y. Still, other goods are showed a higher annual growth rates and increased by 5.3% y/y vs 3.5% y/y in January (stronger since September 2022). Food sales improved to -2.0% y/y from -22.7% y/y, clothing to -11.2% y/y from -38.8% y/y and "other" goods to 23.0% y/y from 18.9% y/y.

The data clearly supports our call for consumption-driven recovery in 2024. Given strong growth in real disposable incomes, low unemployment and high consumer confidence, there are no reasons to expect a weak consumption in the upcoming quarters. We are expecting March to be even stronger, and a double-digit growth rate is possible, but this will be partially driven by one-off effects: timing of the Easter (31 March 2024 vs 9 April 2023) and a possible boost in food shopping before normalisation of VAT rates, planned for April.

Construction sector showed a large output decline again

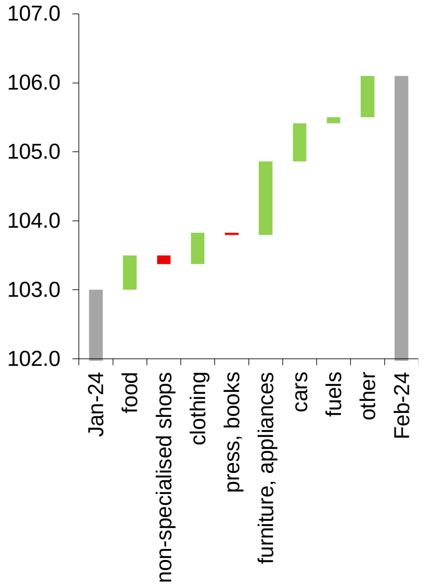
Construction output growth was -4.9% y/y in February, 4.1pp below market consensus and our estimate. This is a bit higher growth rate in January (-6.1% y/y), which was also a major

Construction output in Poland



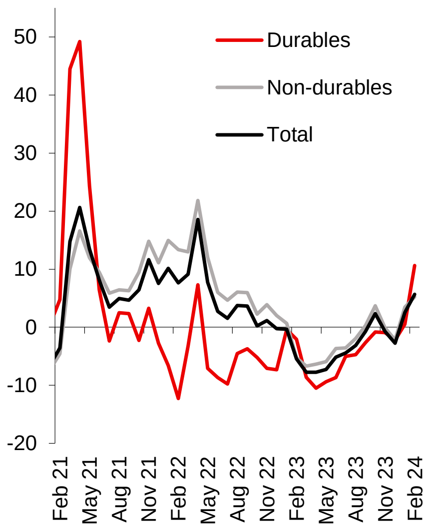
Source: GUS, Santander

Retail sales – breakdown of change in annual growth rate, % y/y



Source: GUS, Santander

Retail sales, % y/y



Source: GUS, Santander

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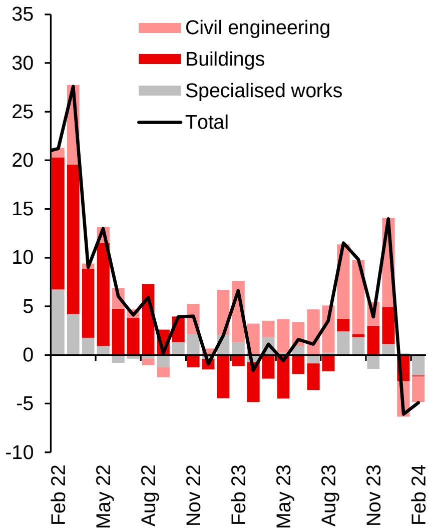
negative surprise at the time of its release. Applying seasonal adjustment reveals that construction output rebounded 2.0% m/m, but coming after a 16.5% m/m collapse. The 3M average of m/m s.a. growth rates moved up to 0.0%.

The slightly smaller scale of the y/y decline in February was thanks to the contribution from construction of buildings which moved from -2.7pp to just -0.1pp. At the same time the specialised works component moved the other way (from +0.1pp to -2.1pp) and civil engineering improved somewhat (from -3.7pp to -2.6pp). Positive growth was seen in investment-type construction works, 6.4% y/y (up from -2.1% y/y in January), while maintenance and repair was down 20.5% y/y (vs. -12.3% y/y in January).

Low output levels in the first months of the year often lead to high volatility of results and large deviations from market consensus. The second large negative surprise calls for cautious observation of the sector, but at the same time the sentiment among construction companies keeps improving and in February the sectoral ESI index reached the highest level since March 2020. We expect the annual growth rate of construction output to return much closer to zero in March and stay positive for the rest of the year. In the later part of the year the inflow of EU funds should also provide some support for construction production.

Construction output, y/y growth structure, pp



Source: GUS, Santander

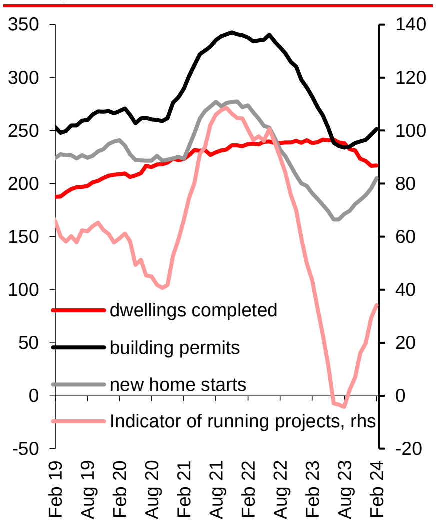
Greater activity in the housing market

In February, the number of completed dwellings equalled 16.0k and rose in annual terms for the first time since June last year, by 1.7% y/y. The growth in the number of issued building permits upkept its momentum and stood at 31.3% y/y after reaching 34.0% in January. Although - as was the case in January - the high growth rate stemmed in part from base effects, the number of issued permits equalled 21.4k, meaning that it rose over the average number of permits issued in Februaries of the last 5 years. Moreover, the number of started construction projects reached 20.6k, the highest result recorded so far in February, with its annual growth rate rising to 89.0% y/y from 67.0% y/y in January.

The number of dwellings under construction managed to increase for the second consecutive month, to 806.4k from 802.8k, with its annual growth rate increasing as well and currently standing at -1.5% y/y, the highest since September 2022. Finally, all of these results were reflected in the 8th consecutive improvement of our proxy measure of running housing construction projects, this time by 4.8 pts to 34.2 pts.

Overall, the newest data clearly show that the rebound of the supply side of the housing market is gaining speed, though the number of dwellings under construction still needs more time to reach the levels from past years. This means that prices will likely continue rising. However, due to the end of the “Safe 2% Credit” programme, the pace of their growth may slow in the coming months.

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



Source: GUS, Santander