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## Economic Comment

### Retail sales at 5%, construction output still down

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Retail sales rose by 5.0% y/y (3.3% m/m in seasonally-adjusted terms) in May, stronger than we expected but weaker than the consensus indicated. The improvement was particularly evident in non-durable goods, including food sales and non-specialised shops. Thanks to the favourable labour market situation and consumer optimism, we remain fairly optimistic about the outlook for retail sales and private consumption. Construction output growth dropped in May to -6.5% y/y, below market expectations of -4.8% y/y and our estimate of -5.0% y/y. Civil engineering works, at -6.6% y/y, were responsible for the deterioration. Nevertheless, we consider the construction outlook to be positive given the inflow of EU funds. The number of dwellings completed in May stood at 14.5k, down 18.1% y/y, but a further upturn in activity is evident in the data on the number of building permits issued and the estimated number of dwellings under construction.

#### Retail sales stronger thanks to non-durables

Retail sales accelerated in May to 5.0% y/y from 4.1% y/y in April, between our forecast (4.4% y/y) and the market consensus (5.4% y/y). Data adjusted for seasonality showed a rise by 3.3% m/m after a 3.5% m/m decline in April. The high volatility of the seasonally-adjusted numbers is, in our view, showing that the working day effect is stronger this year, which is also visible in the industrial production data.

The improvement was particularly evident in non-durable goods, which accelerated to 4.2% y/y from 2.0% y/y, with a marked improvement in food sales (-1.0% y/y vs. -6.8% y/y in April) and in sales in non-specialised shops (4.0% y/y vs. 0.0% y/y). It is possible that sales in grocery shops and supermarkets were positively affected by the presence of two long weekends in May, although clothing, for example, also recorded an improvement (-3.8% y/y vs. -5.6% y/y).

Durable goods sales slowed to 6.5% y/y from 13.3% y/y, including car sales to 19.0% y/y from 29.3% y/y and household appliances to -7.7% y/y from -1.9% y/y. However, sales of consumer durables are susceptible to the working day effect, which, in our view, fully explains the lower growth rate in May. In June, the annual working day effect will continue to be negative, although there may be some higher demand for TVs due to the European football championship (historically, however, we have not seen a strong effect related to sporting events).

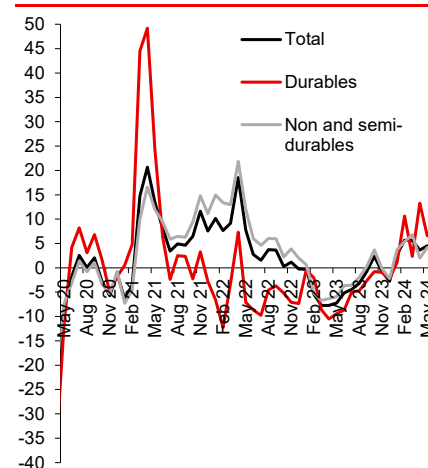
We remain fairly optimistic about the outlook for retail sales and private consumption, mainly due to the favourable labour market situation, strong growth in real disposable income and consumer optimism.

#### Construction output still down y/y

In May, Polish construction output recorded a growth rate of -6.5% y/y against market consensus at -4.8% y/y and our estimate of -5.0% y/y. In May, civil engineering (-6.6% y/y) was responsible for the deterioration of total construction output vs. April's -2.0% y/y reading, while construction of buildings and specialised works had a bit less negative contribution to overall y/y growth than a month earlier. In seasonally adjusted terms, the annual construction production was down 4.4% (vs. -5.8% y/y in April) which makes it the best print this year, m/m output growth was +0.1%.

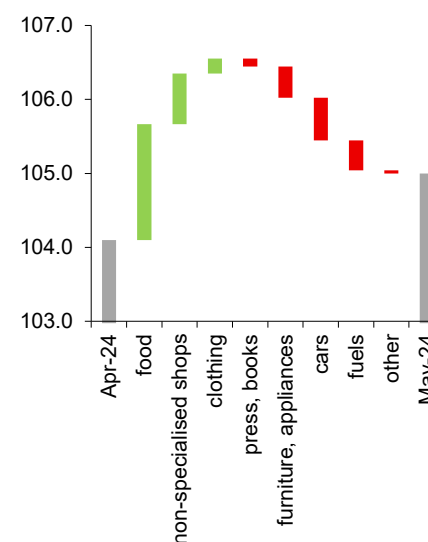
We believe that the outlook for the sector is positive given the EU funds inflow, but it takes time for the EU-financed projects to affect construction output data. We think that in most of the remaining months of 2024 construction production will manage to grow in y/y terms.

#### Retail sales, % y/y



Source: GUS, Santander

#### Retail sales, breakdown of change in annual growth rate



Source: GUS, Santander

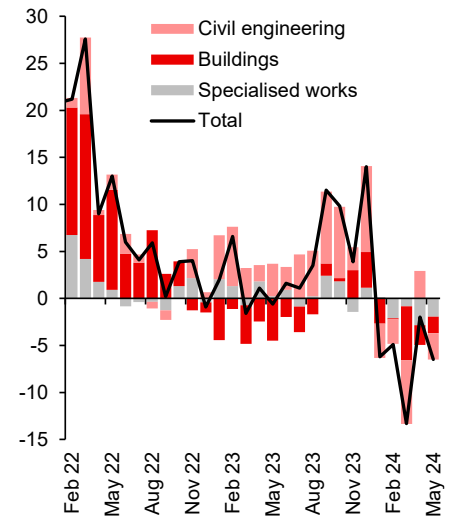
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### Activity in the housing market keeps improving, but still few dwellings are finished

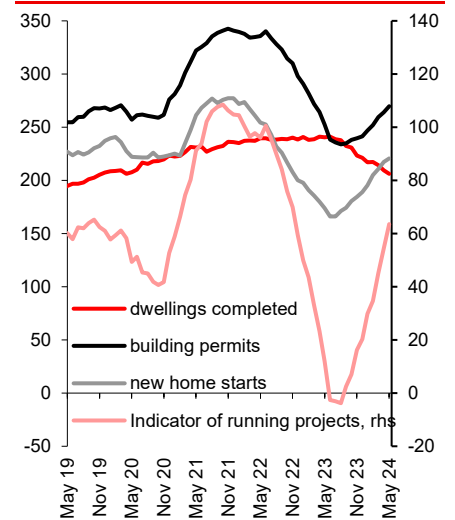
In May, the number of completed dwellings equalled 14.5k and was 18.1% smaller than in the corresponding month of the previous year. In year-to-date terms, the growth rate of completed dwelling decreased from -15.4% in April to -15.9% in May. However, when it comes to issued building permits and the number of dwellings in construction, activity continues to improve. The annual growth rate of issued permits remains high and – after the temporary dip to 21.8% in April – returned in May above 30% (to 31.5%), where it stayed over the whole first quarter of the year. The growth rate of dwellings in construction not only achieved a positive value for the second month in a row and the second time since July 2022, but also increased from 0.9% y/y to 1.8% y/y. Still, more time is needed for the improving activity to translate into an increase in the number of completed dwellings. Rising number of completions should mitigate the upward tendencies in housing prices, especially if new demand-supporting programme is not introduced. However, recent data still show that demand is stronger than supply.

### Growth breakdown of Polish construction output, % y/y



Source: GUS, Santander

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



Source: GUS, Santander

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