22 July 2024

# Economic Comment

## Weaker retail sales and construction output

Bartosz Białas, tel. +48 517 881 807, bartosz.bialas@santander.pl
Cezary Chrapek, CFA, tel. +48 48 887 842 480, cezary.chrapek@santander.pl
Marcin Luziński, tel. +48 510 027 662, marcin.luzinski@santander.pl

Retail sales disappointed in June and grew by 4.4% y/y. Annual growth rate was dragged lower by non- and semi-durables. However, durable goods advanced, which we view as a positive signal. In general, the data do not indicate consumer weakness, but they also do not suggest that private consumption should accelerate. In the entire 2Q24 retail sales increased by 4.5% y/y, i.e. slightly weaker than in 1Q (5.0% y/y). This result is consistent with our forecast of a slight deceleration in private consumption in 2Q24 compared to 1Q24.

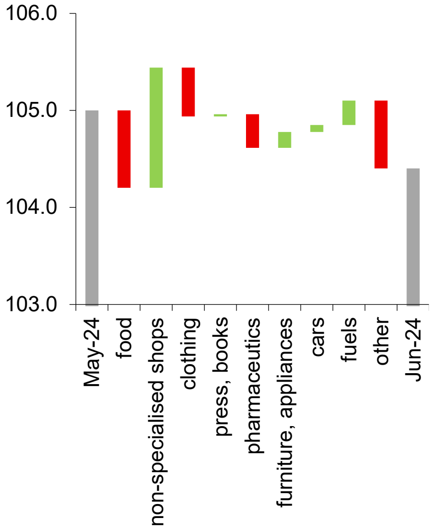
In June, Polish construction output declined by 8.9% y/y and was weaker than expected. All in all, though the latest data do not look overly optimistic, we think that its mid to long term outlook remains positive, e.g. thanks to the inflow of EU funds. Monthly housing market statistics showed improvement in the pace of dwelling completions, though growth rates of issued buidling permits and housing starts decreased a bit. For now, the data seem to confirm also that in 2Q real growth of investment will again by weak, as the results of construction output over the whole 2Q were only a bit better than over 1Q (its average rate of decline equalled 8.7% y/y in 1Q and 6.1% y/y in 2Q).

Although the real data were quite weak, business sentiment either stabilised or improved. Particularly welcome was the modest improvement of sentiment in manufacturing.

Prices of agricultural products rose by 1.6% m/m in June. The recently observed stabilization of agricultural prices, with a slight upward trend, supports our expectation of a slight acceleration of retail food prices in the coming months.

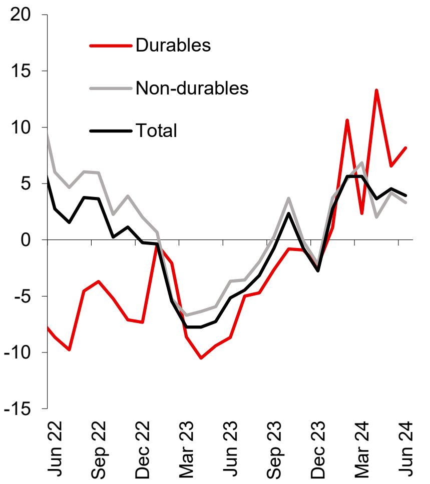
Quarterly averages of monthly activity indicators support our estimate of acceleration in GDP growth in 2Q to c. 3%. Weakness in retail sales and construction was offset by earlier release of better than expected data for industrial production, which is why the July set of economic activity data does not change our growth estimates.

**Retail sales in Poland, breakdown of change in annual growth rate, corresponding period of the preceding year = 100**




*Source: GUS, Santander*

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




*Source: GUS, Santander*

### Retail sales weakened, but durables outperform

Retail sales disappointed in June and grew by 4.4% y/y against expectations at 5.3% y/y and May's result at 5.0% y/y. Data corrected for seasonality rose by 1.5% m/m, after an increase by 3.3% m/m in May.

Annual growth rate was dragged lower by non- and semi-durables, which advanced by 3.3% y/y after adding 4.2% y/y in May. Four categories were clearly underperforming: food, clothing, pharmeceuticals and "others", which slowed to -4.0% y/y from -1.0% y/y, to -19.3% y/y from -13.5% y/y, to 6.0% y/y from 11.0% y/y, and to 15.9% y/y from 23.5% y/y, respectively. On the other hand, other sales in non-specialised shops (which we interpret as supermarkets) accelerated to 12.4% y/y from 4.0% y/y after a very strong monthly jump. Such strong swings in growth rates and, especially, opposite change in food and non-specialised stores make us think that GUS again changed classification of some shops, making it difficult to analyse developments in particular sectors. After May data surprised to the upside, we were speculating that two long May weekends provided a major support for non-durables. Weaker results in June suggests that their impact could have been even stronger that we thought.

Sales of durables were robust and roughly in line with our expectations as they advanced by 8.2% y/y after 6.5% y/y in May. We think that this figure may be more important for assessment of underlying consumer demand that the headline number. Car sales improved to by 24.3% y/y after 23.8% y/y in May and household appliance printed -6.7% y/y vs -8.4% y/y in May.

In general, the data do not indicate consumer weakness, but they also do not suggest that private consumption should accelerate. In the entire 2Q24 retail sales increased by 4.5% y/y, i.e. slightly weaker than in 1Q (5.0% y/y). This result is consistent with our forecast of a slight deceleration in

**Economic Analysis Department:**

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas +48 517 881 807
Cezary Chrapek, CFA +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

private consumption in 2Q24 compared to 1Q24. We maintain our assumptions that the economy will accelerate compared to 1Q, but the pace of the rebound will not be dynamic.

**Construction output weakened again**

In June, Polish construction output declined by 8.9% y/y, contrary to the market expectations for an increase to -5.1% y/y from -6.5% y/y in May and our call for an increase to -4.1% y/y. The main source of the overall decline was construction of buildings, whose growth rate fell from -5.4% y/y in May to -17.9% y/y in June. Specialised works also recorded a significant decrease, from -7.7% y/y to -11.8% y/y, but civil engineering managed to improve, with its growth rate rising from -6.6% y/y to -0.9% y/y.

In seasonally adjusted terms, the overall growth rate of construction output also registered a decline, from -4.4% y/y in May to -6.4% y/y in June, with output falling in month-on-month comparison by 2.1%.

All in all, though the latest data do not look overly optimistic, the prospective inflow of EU funds should have a significant effect on construction output, which makes its mid to long term outlook positive. Moreover, output should be further stimulated by the new programme of mortgage loan subsidies, as well as rate cuts, which in our view may be delivered in the second half of 2025. However, it will take time before any of the effects materialise and are visible in the data. We think that construction output should return to positive annual growth at the beginning of 2025.

For now, the data seem to confirm that in 2Q real growth of investment will again by weak, as the results of construction output over the whole 2Q were only a bit better than over 1Q (its average rate of decline equalled 8.7% y/y in 1Q and 6.1% y/y in 2Q). According to our estimates, investments should rise from -1.8% y/y in 1Q to +0.5% y/y in 2Q.

**Modest improvement of sentiment in industry**

In July, seasonally adjusted measures of business sentiment either stabilised or improved in most sectors surveyed by the stats office. The biggest improvements were registered in ICT and finance – in the case of the former due to improvements in both its diagnostic and predictive components, and in the case of the latter, mainly due to an improvement in the predictive component. Situation was little changed in construction, as well as in wholesale and retail trade, whereas manufacturing registered a modest but welcome improvement. The measures of business sentiment worsened only in the sectors of transport and storage, and accommodation and food services, in both cases mostly due to significant worsening of their predictive components.

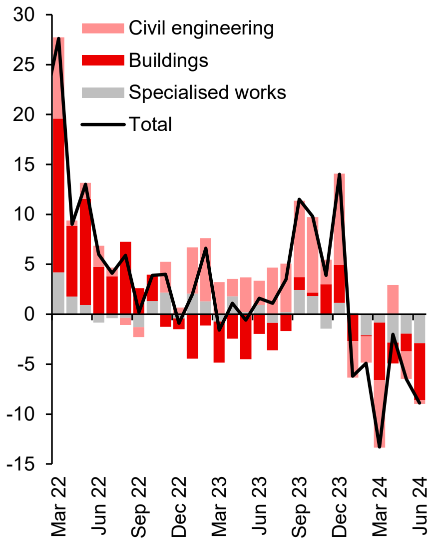
Overall, the data offer no major breakthroughs, but the improvement of business sentiment in industry offers some consolation after the decreases registered in previous months.

**Gradual increase in the supply of hosuing**

Monthly housing market statistics showed improvement in June vs. May. The pace of dwelling completions accelerated in June to 8.7% from -18% y/y in May, marking the second positive annual growth rate since 1H23. Growth in the number of issued building permits slowed to 15% y/y from over 30% in May, though it remains well in double digits. At the same time, housing starts growth jumped to 32.1% y/y from 20.7%. Consequently, growth of dwellings under construction strengthened to 2.6% y/y from 1.8%, and their nominal level was the highest since late 2022.

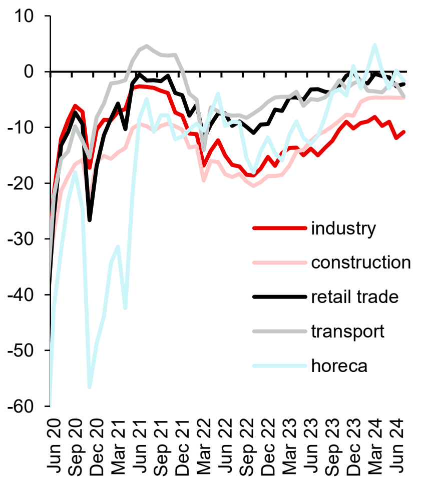
Strong momentum in housing starts should support dwelling completions and construction output growth in the next few quarters. Increase in new dwellings and weakaning of sales amid the end of the Safe Loan program suggest that the demand-supply pressure eased, which may allow prices to stabilize. This trend may last until 2025. Next year may bring the new government program of mortgage loan subsidies, rate cuts from the MPC, and further improvement in disposable income of households, all of which may stimulate demand in the hosuing market.

**Construction output growth structure, %y/y**



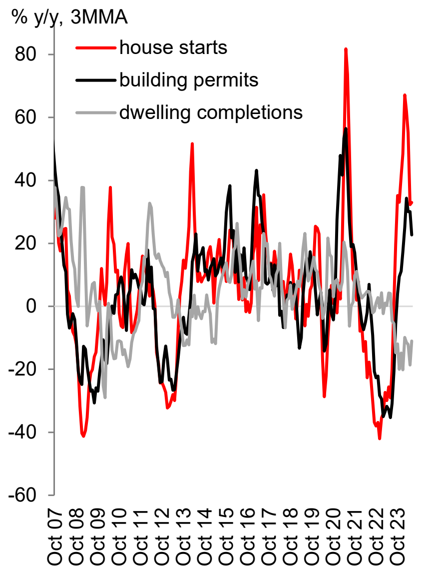

*Source: GUS, Santander*

**Sectoral sentiment indicators, s.a.**




*Source: GUS, Santander*

**Housing market**

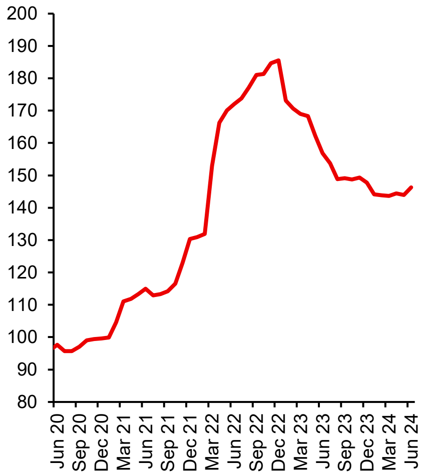



*Source: GUS, Santander*

### Prices of agricultural products up under the influence of cereals

Prices of agricultural products rose by 1.6% m/m in June. This had to do primarily with the increase in grain prices: wheat rose by 12.6% m/m, and rye by as much as 26.1% m/m. The upward trend in grain prices is due to developments in world markets, where concerns have been raised about this year's supply of this agricultural product. The recently observed stabilization of agricultural prices, with a slight upward trend, supports our expectation of a slight acceleration of retail food prices in the coming months.

**Prices of agricultural products in Poland, index (December 2017 = 100)**




*Source: GUS, Santander*

### Activity data support our GDP growth

Quarterly averages of monthly activity indicators support our estimate of acceleration in GDP growth in 2Q to c. 3%. Weakness in retail sales and construction was offset by earlier release of better than expected data for industrial production, which is why the July set of economic activity data does not change our growth estimates. 2Q showed acceleration in industrial production to 2.0% y/y from -0.1% in 1Q, strengthening in construction output to -6.1% from -8.7%, and weakening in retail sales to 4.5% from 5.0%. These data imply positive and relatively high growth in GDP in 2Q in line with our estimate at 1.5% q/q sa and some acceleration in annual growth of Gross Value Added. In 2Q we expect a minor deceleration of consumption growth and a marginal improvement in the result of investment.



*Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.*