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Economic Comment

July data suggest a stabilisation of GDP growth

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Today's data from the Polish economy again turned out to deliver a mixed message. Retail sales rose by 4.4% y/y in July, the same pace as in June but clearly worse than forecast, but the detailed data looks quite optimistic, with durable goods sales in particular growing faster than a month ago. Consumer sentiment deteriorated in current terms, but the future indicator improved. We judge that the data indicate that consumption will remain a solid driver of GDP this year, although no major acceleration is to be expected.

Construction output surprised on the upside, falling by 1.4% y/y (the least since December). Data from the housing market also looked positive, with a higher number of dwellings completed and building permits. The data seem to signal that the negative trend in construction observed since the end of 2023 may be coming to an end. We think that the coming months and quarters should bring a further recovery in construction output, supported by the increasing use of EU funds. Business sentiment also improved in August, with the biggest improvement recorded in manufacturing.

In our view, the data suggest that the economy has been able to maintain growth at around 3% y/y in 3Q2024. The main cause for concern therefore remains the situation in Germany, as prolonged weakness in Poland's main trading partner may have a negative impact on the situation of domestic industry.

Sales below forecasts, but details give no cause for concern

Retail sales rose by 4.4% y/y in July, unchanged versus June and below expectations (us: 5.2% y/y, consensus: 5.4% y/y). Data adjusted for seasonality showed a decline by 2.7% m/m after a rise by 1.5% m/m in June.

While the weaker reading, especially of the seasonally adjusted data, may raise concerns about the outlook for consumption, the detailed data are, in our view, quite optimistic. Virtually all sales categories showed growth faster than our assumptions, with durable goods accelerating to 11.8% y/y from 8.2% y/y, including car sales rising 30.1% y/y (24.3% y/y in June) and furniture and household appliances falling 3.4% y/y (after falling 6.7% y/y in June). The behaviour of sales of durable goods is, in our view, a better barometer of consumer optimism than sales of non-durable goods.

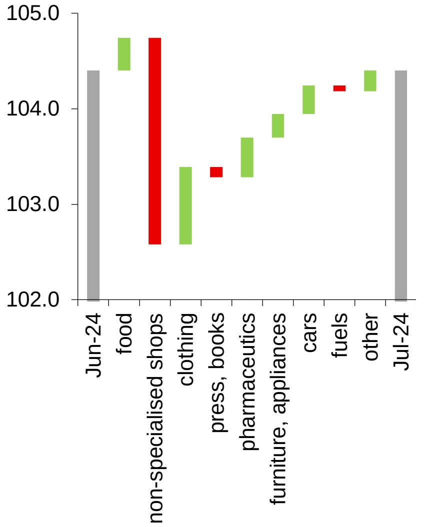
The source of disappointment was other retail sales in non-specialised shops, which we interpret as supermarkets and discount stores. Annual growth in this category fell to -4.3% y/y from +10.8% y/y in June. Recently, the behaviour of this category has clearly deviated from the seasonal pattern and its volatility increased. The rest of the durable and semi-durable goods categories looked reasonably good, with food sales accelerating to -2.7% y/y from -4.0% y/y, clothing to -10.4% y/y from -19.3% y/y, and pharmaceuticals to 11.2% y/y from 5.4% y/y.

We see the data as confirming that consumer demand remains moderately strong and that private consumption will remain the main engine of GDP growth this year. We assume that important support for consumption will come from sales of services, which look robust, for example, in card transactions of Santander Bank customers.

Construction output surprised positively

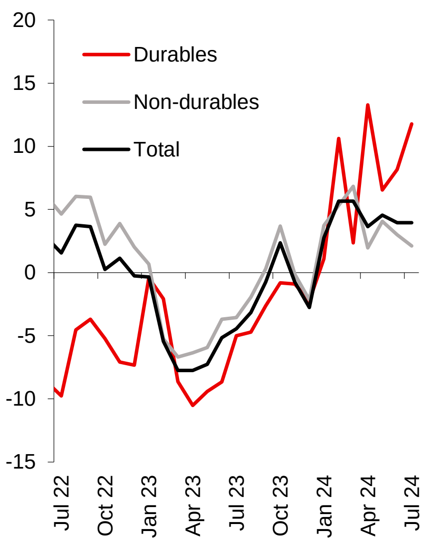
Construction output fell in July by 1.4% y/y (the smallest decline since December), beating market consensus (-2.4% y/y) and our forecast (-3.6% y/y). The seasonally adjusted

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

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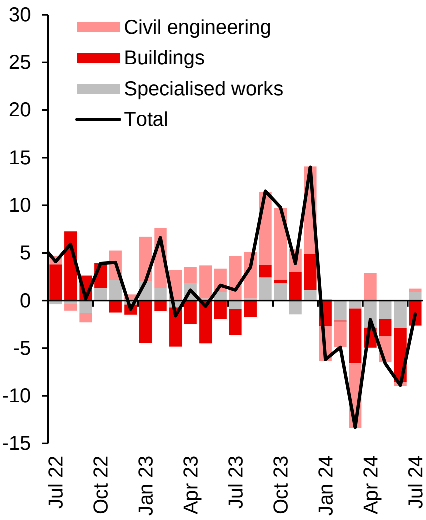
production moved by +0.6% m/m and -5.3% y/y, which shows that to some extent the result was boosted by positive calendar effects (more working days). Still, the data seems to be signalling that a negative trend in construction observed since the end of 2023 may be coming to an end. While production was still falling in construction of buildings, there was a moderate pickup in civil engineering (which may be an early sign that the unblocked EU funding starts transforming into real investments) and more significant in specialized works. GUS also reported a clear pickup in investment construction works. We think that the coming months and quarters should see a further recovery of construction production, supported by growing utilization of the EU funds.

Construction output growth structure, %y/y



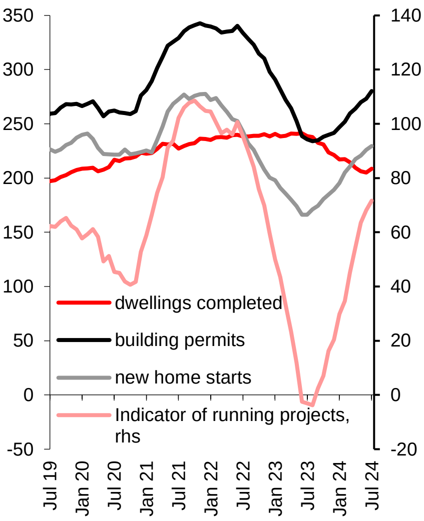
Source: GUS, Santander

Supply side of the housing market gradually improves

In July, the number of completed dwellings stood at 18.6k, the highest result so far this year and 24.8% higher than in the corresponding month of the previous year (though in part due to the very low base in July 2023). In year-to-date terms, the dynamics of completions rose from -14.6% to c -10.0%. The number of issued building permits also increased, from 24.0k in June to 26.6k in July, and their annual dynamics reached the highest level since 2021, recovering to 38.0% y/y from the brief dip to 14.8% y/y in June. The number of started construction projects weakened a bit, as it decreased form 21.3k to 19.9k, but the number of dwellings in construction continued rising, from 827.8k in June to 829.1k in July, and their annual growth rate stayed at 2.6%.

Overall, the newest data show further, gradual improvement of the supply side of the housing market (which is also reflected by the 11th consecutive increase of our proxy measure of running construction projects, from 68.1pts to 71.7 pts), though it has not yet reached the state from the previous years.

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



Source: GUS, Santander

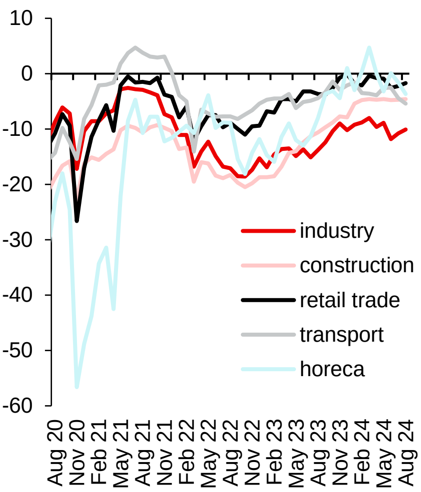
August business sentiment: industry shows the largest m/m improvement again

Seasonally adjusted sectoral business sentiment indices showed in August a mild improvement in most parts of the Polish economy based to a large extent on better assessment of future operating conditions. The largest improvement was seen in industry (the same was true for July, but the sector still has much catching up to do to the rest of the pack), followed by wholesale and retail trade. A slight rise of the indices for financial and insurance services and construction was also recorded. Declines were reported in hotels and restaurants, transport as well as the information and communication sector. The data suggest that the economy was able to maintain a c3% y/y growth in 3Q24.

Consumers worried about higher costs of living

In August, Polish consumers assessed their current situation as significantly worse than in July, but the gauge of their expectations improved somewhat. The aggregate current situation index dropped from -14.0 pts to -15.9 pts, which pretty much matches its long-term average, and is the weakest print in 10 months. Its decline was driven by worse opinion regarding current financial situation and less appetite for big-ticket items. At the same time, the aggregate expectations index rose from -11.6 pts to -10.3 pts, some 8 pts above the long-term average. The move came from partial reversal of the July's sudden rise of worries regarding future financial situation, a break in the six-month negative streak in job security and consumers mentioning more often that they will be able to save some money within the next 12 months. What is more, the inflation expectations index decreased visibly after a jump in July. Such pattern of changes in sub-indices leads us to an interpretation that the August consumer survey simply captured the effect of the rise in the costs of living - higher electricity, gas, water and sewerage collection bills. Energy vouchers, the government measure to mitigate the impact on energy price hikes on household budgets, should start to be delivered by the time of the next survey, so we might see an improvement in consumer sentiment in September. On the other hand, consumers will then face higher costs of child education. The consumer survey results do not affect our view on further strong private consumption growth.

Sectoral business sentiment indicators, s.a.

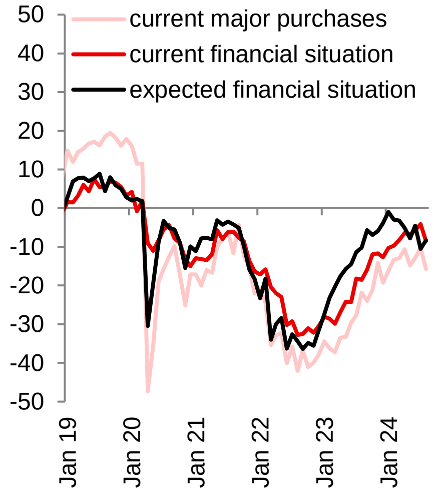


Source: GUS, Santander

Slight correction in agricultural prices

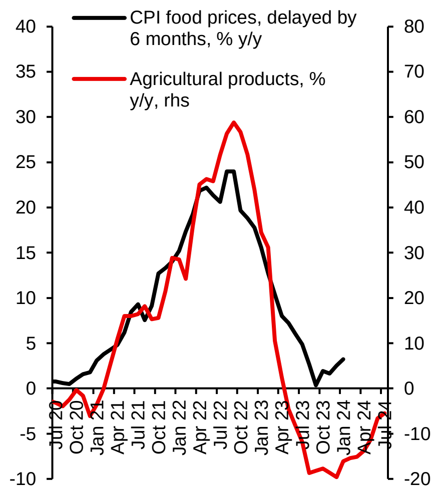
In July, farmgate prices decreased by 0.3% m/m and were 5.5% lower than a year earlier. Rates for most cereals, potatoes, milk and livestock went down. Overall, however, over the last six months the agricultural prices have been generally stabilising, which we believe will support a rebound in annual food price dynamics in the CPI in the coming months.

Consumer confidence, selected indices, pts



Source: GUS, Santander

Prices of agricultural products in Poland vs CPI food prices



Source: GUS, Santander

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