

Economic Comment

Large drops in retail sales and construction

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In January, Polish retail sales dropped by 6% y/y in real terms. The market had expected -6.6% y/y and we -4.5%. The large deterioration vs -0.8% y/y in December was due to closed shopping malls. Also, the restrictions on leisure activities discouraged travelling. However, durables goods sales rose 1.4% y/y. The epidemic restrictions remain the key obstacle to a major rebound in consumption – we expect a quick normalisation as soon as these end. Construction fell by 10.0% y/y in January vs our call at -12.8% y/y, market consensus at -2.8% y/y and previous reading at +3.4% y/y. The reading looks very disappointing but actually it is not: the output was dragged lower by the negative working day effect and by the high statistical base effect. We think that output in construction will continue to post negative annual growth rates in the nearest months, but should improve in 2H21 as investment will be reviving.

Largest y/y drop of retail sales since May 2020

In January, Polish retail sales dropped by 6% y/y in real terms. The market had expected -6.6% y/y and we -4.5%. This comes after -0.8% y/y in December.

The large deterioration vs the previous print was caused by closing of shopping malls for the entire month. As a consequence we saw e.g. a collapse of shoes and apparel sales by 40.8% y/y. Also, the government moved winter school break for all regions to January but ordered closure of hotels and ski slopes for general public, which discouraged travelling. As a result fuel sales dropped by 16.4% y/y. Similar to other months when shopping malls were closed, business moved to some extent online (share of internet sales up to 9.8% from 9.1%), but it did not offset the impact of the closed shops.

The only categories that increased their contribution to total y/y retail sales growth were durable goods: furniture, RTV, household appliances and cars. Taken together, these categories showed a rise of sales by 1.4% y/y vs -0.9% previously, while the other categories saw -7.6% y/y vs -0.7% y/y previously.

The labour market situation remains quite robust and we have even seen recently some improvement in how consumers see their future financial situation, which bodes well for consumption prospects. The epidemic restrictions remain the key obstacle to a major rebound in retail sales and private consumption. We expect a quick normalisation as soon as these end.

Retail sales deflator stayed at 0% y/y and, since it reflects changes of goods prices, suggests that the rebound of CPI in January to 2.7% y/y from 2.4% came from services categories, which are a part of core CPI.

Construction not as bad as it seems

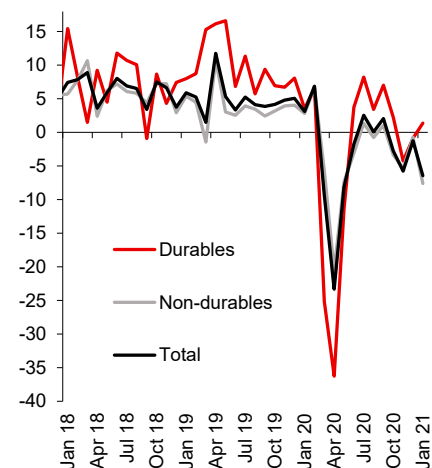
Construction fell by 10.0% y/y in January vs our call at -12.8% y/y, market consensus at -2.8% y/y and previous reading at +3.4% y/y.

The reading looks very disappointing but actually it is not: the output was dragged lower by the negative working day effect and by the high statistical base effect. Let us remind that winter in January 2020 was mild, and construction output is traditionally low in volume at the start of the year, allowing for higher volatility. These factors were behind very high reading in January 2020 (+9.0% m/m after seasonal adjustment, the highest reading since 2011). This time, seasonally-adjusted output rose by 1.7% m/m and this is quite a good result.

Construction of buildings decelerated to -14.4% y/y from +4.1% y/y in December, specialised works to -10.1% y/y from +12.0% y/y and civil works to -5.0% y/y from -1.0% y/y. We think that output in construction will continue to post negative annual growth rates in the nearest months, but should improve in 2H21 as investment will be reviving.

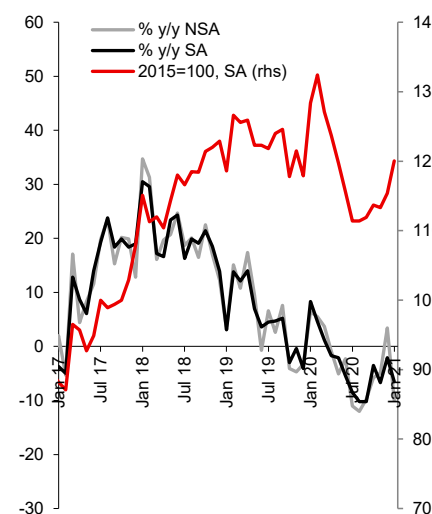
On the housing market, the number of completed dwellings fell by 7.5% y/y versus +15.7% y/y in December, in line with tendencies in the construction of buildings.

Retail sales in constant prices, main categories, % y/y



Source: GUS, Santander

Construction output



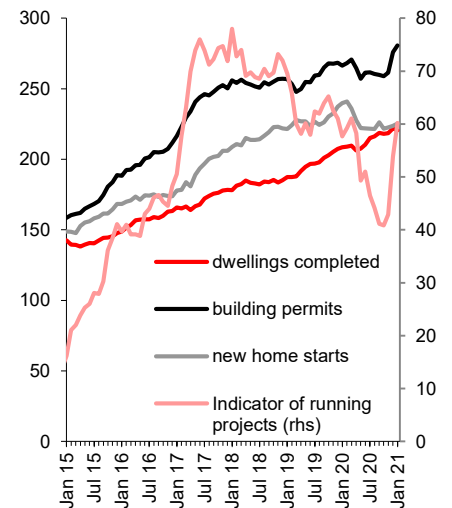
Source: GUS, Santander

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However, building permits jumped by 26.8% y/y and new home starts by 9.6% y/y. This is the second month in a row of improvement in these two statistics and it seems that the housing sector is gaining momentum after depressed activity in 2H20.

Housing market tendencies, 12m sum



Source: GUS, Santander
Indicator of running projects = 12m building permits - 12m completed dwellings

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