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Economic Comment

Good and bad sides of the February freeze

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Retail sales fell in February by 3.1%, showing some improvement versus -6.0% y/y recorded in January and vs our forecast at -4.3% and market consensus at -2.7%. Retail sales are likely to deteriorate again in March, as shopping malls and hotels will again be closed in the entire country on 20 March. Thus, private consumption is likely to remain negative in annual terms in 1Q21.

Construction output collapsed in February by 16.9% y/y, down from -10% y/y in January while we and the market looked for a minor improvement. We believe that much of the negative surprise was weather-related, nevertheless it does weigh on the 1Q GDP, especially on investments.

Retail sales higher than thanks to looser restrictions

Retail sales fell in February by 3.1%, showing some improvement versus -6.0% y/y recorded in January and vs our forecast at -4.3% and market consensus at -2.7%.

Sales improved mostly thanks a major jump in sales of clothing (+72.8% m/m, to +12.9% y/y from -41.8% y/y in January). We guess that this jump was triggered by a combination of three factors: reopening of shopping malls, reopening of hotels and freezing weather. Significant improvement was also recorded in sales of press and books (+9.4% y/y in February vs -11.9% in January) and cars (+1.0% y/y in February vs -5.3% y/y in January). Meanwhile sales of food and in non-specialised stores (mostly supermarkets) were rather weak and we think it is mostly due to a strong statistical base from 2020, created by increased food and pharmaceutical purchases shortly before the pandemic arrived to Poland.

Retail sales are likely to be hit again in March, as shopping malls and hotels will again be closed in the entire country on 20 March. Note that while momentum is likely to be undermined, the annual growth rate could be stronger than in January and February, thanks to a very low base from March 2020. Private consumption is likely to remain negative in annual terms in 1Q21.

Frozen construction sites

Construction output collapsed in February by 16.9% y/y, down from -10% y/y in January while we and the market looked for a minor improvement. This is the second in a row major negative deviation from the consensus. The reading looked equally bad in seasonally-adjusted terms, -16.9% y/y vs -6.5% y/y previously.

While we made some downside adjustment for the adverse weather while preparing our forecast it seems the factor had a much more severe impact. In the monthly business survey for February the construction sector did not express any additional problems with labour or materials accessibility, but did complain about the weather as an obstacle to its activity.

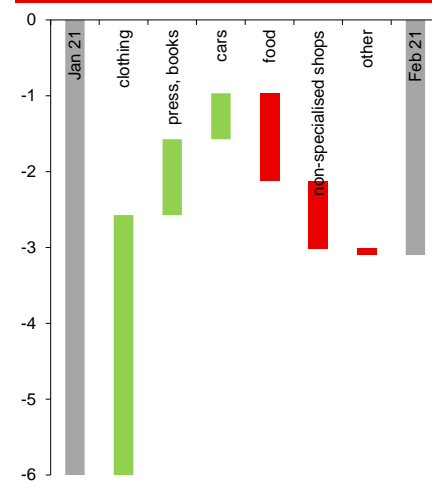
All components showed a significant deterioration of y/y growth compared to January, especially construction of buildings (-24.1% vs -14.4% previously, the worst outcome in four years).

Bear in mind that the previous winter was very mild and the volume of construction works in the first months of the year is usually quite small, which may at times lead to huge swings of y/y output growth.

We expect construction output to stay negative y/y in the following months, possibly improving in 2H21. We believe that much of the negative surprise was weather-related, nevertheless it does weigh on the 1Q GDP, especially on investment.

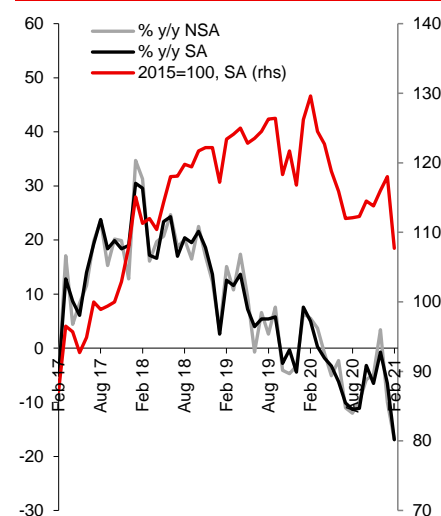
The housing market saw the third consecutive month of rapid growth of building permits (in February +44% y/y), but house starts fell by 10% y/y (possibly due to the weather). It seems the market wants to recover after the lower activity in 2H20 which may provide some support to overall construction output in the coming months.

Breakdown of change in annual retail sales growth rate



Source: GUS, Santander

Construction output

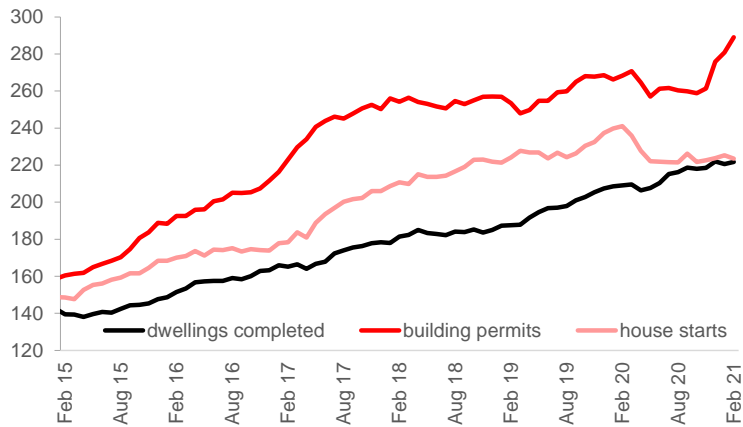


Source: GUS, Santander

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Housing market tendencies, 12M rolling sum, in thousands



Source: GUS, Santander

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