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Economic Comment

Strong retail sales and housing, revised GDP

Piotr Bielski, +48 48 22 534 18 87, piotr.bielski@santander.pl
Marcin Luziński, +48 22 534 18 85, marcin.luzinski@santander.pl
Grzegorz Ogonek, +48 22 534 18 84, grzegorz.ogonek@santander.pl

Retail sales surprised to the upside with 15.2% y/y growth in March (we expected 9.2%, market: 9.9%). Construction output at -10.8% y/y was slightly weaker than market consensus (-10.3%) and much better than we expected (-14.8%). March was quite busy for housing construction. The GDP data revisions and the most recent data about economic activity in March, taken together, suggest in our view that GDP growth in 1Q21 was stronger than we assumed earlier – possibly around -1% y/y rather than -2% y/y. This corresponds to the impressive over 1.5% q/q jump (seasonally adjusted) at the start of the year, despite the persisting pandemic and sweeping restrictions. It bodes well for GDP growth forecast for the entire 2021 and suggests that possibly our recent downward revision from 4.6% to 4.2% could have been unnecessary. April consumer and business sentiment indexes improved slightly.

Retail sales above expectations thanks to Easter?

Retail sales took the cue from yesterday's data and surprised to the upside with 15.2% y/y growth in March (we: 9.2%, market: 9.9%). All sales categories improved their annual growth rates in March. A few sectors recorded jaw-dropping results, with sales of clothing and footwear rebounding to +90.7% y/y from +9.9% y/y in February, sales of cars to 51.7% y/y from 1.4% y/y and sales of furniture and household appliances to 41.3% y/y from 11.1% y/y. However, these numbers are misleading given the very low base of March 2020, when lockdowns started.

When we compare the sales to the corresponding period of 2019, the growth rates become way less impressive: retail sales rose by 5.1% vs March 2019 vs 3.8% in February (vs February 2019). Sales of clothing fell by 2.8% vs March 2019 as compared to +27.5% y/y in February (vs February 2019), sales of cars rose by 4.0% vs March 2019 vs 7.9% in February and sales of furniture and household appliances rose by 15.5% y/y vs March 2019 and vs 18.7% y/y in February. All these categories recorded thus some deceleration in line with our expectations based on the fact that big shops had to close nationwide on 20 March. Thus, the upward surprise in the headline number came mainly from sales of food (4.8% y/y vs -2.5% y/y) and sales in non-specialised stores (36.7% y/y vs 24.5% in February) and in our view this was an Easter-related phenomenon. In 2021 Easter was scheduled on 4 April as compared to 21 April in 2019 and it seems that Easter-related food purchases were carried out in March.

Lockdown of shops boosted the internet sales, which advanced by 28.8% m/m and contributed 2.5 pp to total monthly nominal sales growth (16.5% m/m).

We are expecting retail sales to remain generally robust in the months to come, given sound labour market situation. In April the annual growth rate will be supported by very low base but at the same time undermined by closure of shopping malls, so we are likely to see an improvement in annual growth rate but a deterioration vs 2019.

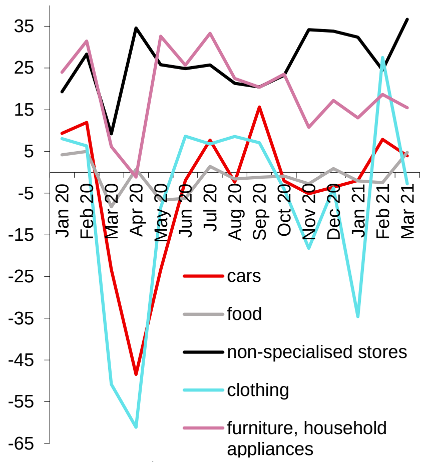
Construction output recovered somewhat in March

Construction output in March at -10.8% y/y was slightly weaker than market consensus (-10.3%) and much better than we expected (-14.8%). This is a marked rise vs -16.9% y/y in February. In SA terms the improvement in March was 1.5% m/m. Growth rate in construction of buildings improved to -14.4% from -24.1% y/y and this was the main factor of better headline growth, civil engineering collapsed further in y/y terms and at -14.1% is the weakest in half a year. We believe the sector should be reducing the scale of the output decline in the coming months and possibly see positive growth in 2H21.

Housing market in an upswing

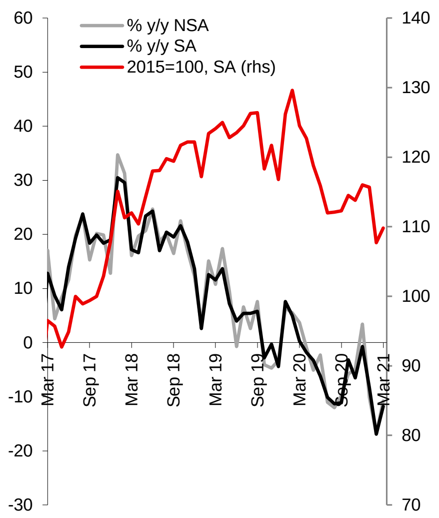
March was busy for housing construction, with number of finished flats up by 24.8% y/y (mostly driven by activity of individual investors), number of building permits up by 53.1% y/y and house starts up by 60.5% y/y. These numbers look really impressive and – interestingly – housing market did not witness a collapse in March 2020 (with an

Retail sales by categories – growth rate vs corresponding month of 2019



Source: GUS, Santander

Construction output



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Luziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 18 84

exemption of house starts which declined by 21.4% y/y back then), so they are not distorted by low base. Housing market is in an upswing after temporary decline in activity in mid-2020 with indicator of running projects (12m sum of permits – 12 sum of finished flats) close to all-time high.

GDP growth revisions

Poland's GDP data for the last two years have been revised today, moving total GDP growth in 2019 from 4.5% to 4.7% and leaving 2020 at -2.7%. In 2020 the quarterly GDP growth has been lifted +0.1pp in all quarters but Q3, which has been lowered by 0.2pp. As regards the breakdown of GDP growth, the most notable change took place in 4Q20 when investments were revised much lower (from -10.9% y/y to -15.4% y/y), while at the same time upward revision affected public consumption (from 3.4% to 7.7% y/y) and inventories (with their contribution to GDP up from 0.6 to 1.3pp).

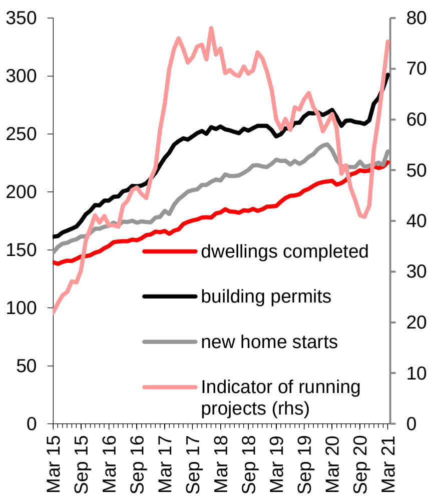
The data revisions and the most recent data about economic activity in March, taken together, suggest in our view that GDP growth in 1Q21 was stronger than we assumed earlier – possibly around -1% y/y rather than -2% y/y. This corresponds to the impressive over 1.5% q/q jump (seasonally adjusted) at the start of the year, despite the persisting pandemic and sweeping restrictions. It bodes well for GDP growth forecast for the entire 2021 and suggests that possibly our recent downward revision from 4.6% to 4.2% could have been unnecessary.

Slightly improved consumer and business sentiment in April

April was the fifth month of improving consumer expectations index and the second month of improving current situation index. Both are now at the highest levels since October 2020. Unemployment worries eased further to the most positive level since October 2020. Some improvement in the index of current financial situation of households should also be noted. The survey was conducted during the peak of the third Covid-19 wave with record high numbers of daily new cases, deaths and hospital beds occupancy. Still, consumers reported more worries only about general national health, while their assessment of own health hazard, own financial situation and everyday life of their local community as well as the economic impact of the pandemic were all little changed.

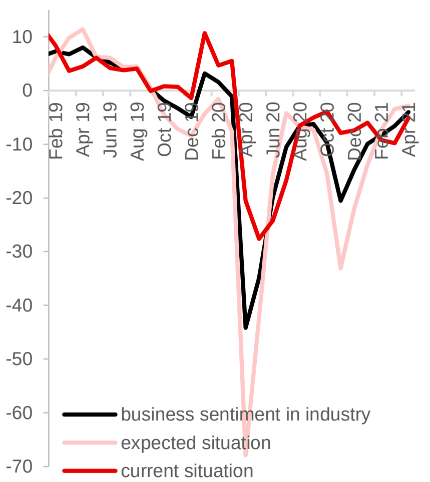
Business sentiment in April kept gradually improving in industry, stabilised in construction and transport while in retail trade and hotels & restaurants the index worsened after rising for four months. There was a noticeable improvement of current assessment index in industry after two poor months. Firms were asked an additional question about expected investments in 2021 vs 2020: manufacturing sector plans to spend 38% more, transport c.15% more, construction and trade signal marginal declines in outlays while hotels and restaurants indicated a drop by 48%. This highlights the uneven impact of the pandemic and restrictions on sectors.

Housing market statistics, % y/y



Source: GUS, Santander

Business sentiment in industry



Source: GUS, Santander