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Economic Comment

Positive surprises in trade and construction

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May retail sales rose by 13.9% y/y, slightly above expectations (we: 12.8%, market: 11.4%). As we expected, the reopening of shopping malls in May encouraged consumers to storm these facilities. We are expecting sales to return to its regular pattern in the months to come (as long as no new lockdowns appear) and to remain fairly strong, supported by the positive labour market situation. Note however that the retail sales are still visibly below pre-covid trend.

Polish construction output rose in May by 4.7% y/y, beating market consensus at 1.5% and our 2.7% estimate. A rebound in construction suggests the investment surge registered in 1Q21 (based mostly on cars and machinery purchases) may have even broadened in 2Q. Housing market was still showing record high activity in May.

June set of sectoral business confidence indicators mostly showed m/m gains.

Sales jump thanks to restriction easing

May retail sales rose by 13.9% y/y, slightly above expectations (we: 12.8%, market: 11.4%). As we expected, the reopening of shopping malls in May encouraged consumers to storm these facilities, with sales of clothing up by 92.2% m/m, press, books and other sales in specialised stores up by 38.8% m/m, furniture and household appliances up by 30.0% m/m.

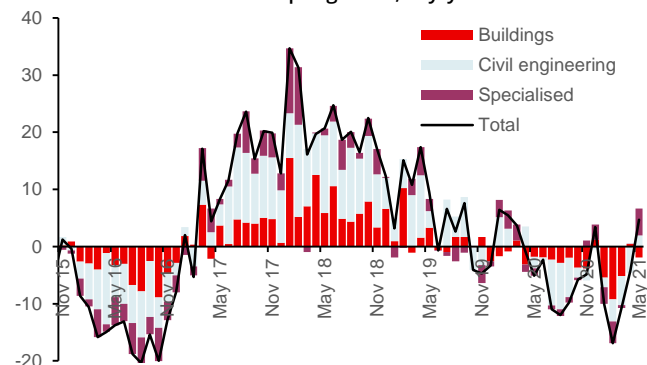
Annual growth rate slowed down from 21.1% y/y in April, but this was mainly caused by the statistical base and comparison versus corresponding months of 2019 shows an acceleration to 5.1% y/y in May from -6.2% in April. Sales of clothing were by 34.3% higher than in May 2019, sales of furniture and household appliances by 22.3% higher. We are expecting sales to return to its regular pattern in the months to come (as long as no new lockdowns appear) and to remain fairly strong, supported by the positive labour market situation. We think that momentum in a few categories, especially clothing could ease down a bit, as it was partially driven by the reopening frenzy. Note however that the retail sales are still visibly below pre-covid trend.

Retail sales deflator increased once again, to 4.6% y/y from 3.8% y/y in April, mostly driven by annual growth of fuel prices. Internet sales fell to 9.1% of total sales from 10.8% in April, following an already established pattern: opening of shops = lower internet sales, closure of shops = higher internet sales.

Construction output keeps accelerating

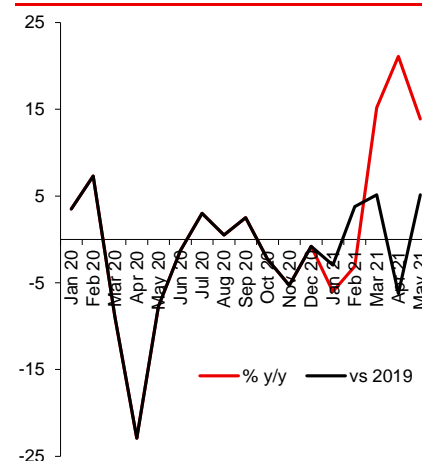
Polish construction output rose in May by 4.7% y/y, beating market consensus at 1.5% and our 2.7% estimate. This is the first positive y/y reading this year. In SA terms the output grew by 3% y/y (the first positive print since March 2020). In SA m/m terms we already have a streak of three respectable readings (c.3% in March, 5% in April, and now 3.9%).

Structure of construction output growth, % y/y



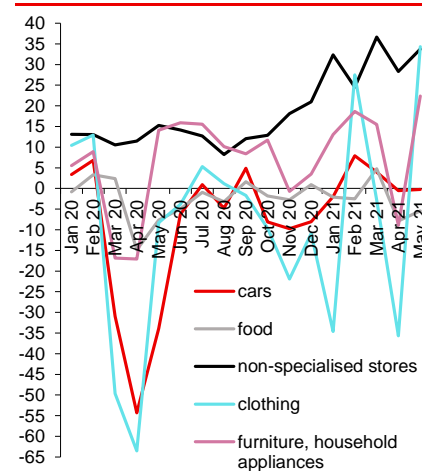
Source: GUS, Santander

Retail sales: % y/y and vs corresponding month of 2019



Source: GUS, Santander

Retail sales by categories, % change vs corresponding month 2019



Source: GUS, Santander

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A rebound in construction suggests the investment surge registered in 1Q21 (based mostly on cars and machinery purchases) may have even broadened in 2Q. That said, the May strong print of construction output was mainly a function of specialised works (up 19% y/y) and also to some extent civil engineering (4.7% y/y), while construction of buildings was down 5.7% y/y. We assess that by the end of summer construction output may be growing at double-digit rates.

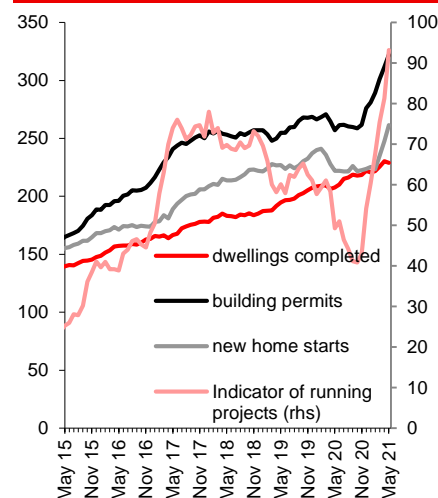
The housing market is still showing record high activity. The GUS estimate of houses and apartments under construction set a new all-time high at 860.2k (+4.1% y/y). Building permits rose 54.4% y/y (low base) and 10.9% vs May 2019 and house starts were up 92.5% y/y or 40.2% vs May 2019. Indicator of running projects jumped to 93.3, setting a new all-time high.

Sectoral business confidence mostly up in June

June set of business confidence indicators is more of a mixed bag than the previous releases. Transport, construction and wholesale trade sectors have gained much optimism when it comes to their current situation, but at the same time in industry and transport the gauge of expected business conditions fell for the first time in six months. Hotels and restaurants benefitted from the reopening of the economy and are showing high hopes (their expectations index is now the highest in more than 11 years), but the current situation is still considered relatively weak (the current assessment index is the highest since Oct'20, but still way below pre-pandemic levels).

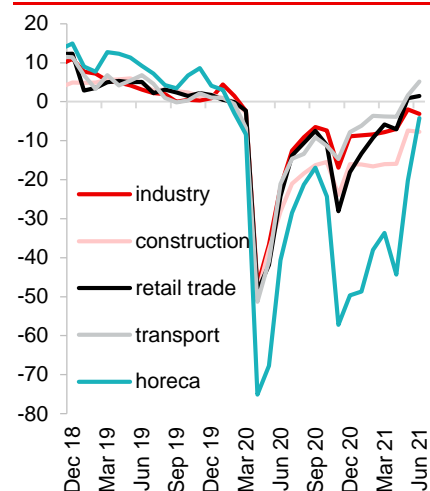
Companies reported that between March and May the most often indicated negative consequence of the pandemic was a rise of costs (indicated by c.60% of industrial firms, almost 70% of construction firms, and c.40% in other sectors). There were also many responses about supply chain disruptions (felt by c.50% of industrial companies, 40% in wholesale trade and 34% in construction).

Housing market indicators



Source: GUS, Santander
Indicator of running projects = 12m sum of permits - 12m sum of finished flats

Sectoral business confidence indicators, SA



Source: GUS, Santander

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