

Economic Comment

Construction and sales below expectations

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Retail sales rose by 5.1% y/y in September, slightly below forecasts. Despite the fact that the data are solid overall, they show that retail sales does not want to return to the pre-pandemic trend despite the strong labour market and the lack of significant pandemic restrictions, which might lower the retail sales and private consumption growth in 4Q21. The retail sales deflator jumped to 5.7% y/y from 5.0% y/y in August and reached the highest level since the comparable data are available (2009). In September Polish construction output was quite depressed at only 4.3% y/y vs 8.2% market consensus and our 6.8% call. The housing market maintained high pace of activity. We assume that construction sector can maintain the c.4% y/y pace of output growth throughout 4Q, but in the course of 1H21 it may slide below zero. GUS revised quarterly GDP data for 2020 and 1H21 raising all economic growth readings in the period. GG deficit in 2020 was revised to 7.1% of GDP from 6.9% of GDP.

Retail sales below expectation, the deflator is still on the rise

Retail sales rose by 5.1% y/y in September, slightly below consensus (5.5% y/y), our forecast (6.2% y/y) and August's reading at 5.4% y/y. Seasonally-adjusted data showed a rise by 0.2% m/m. Weaker performance was delivered mostly by sales of clothes, which decelerated to 14.5% y/y from 28.6% y/y in August. Note, however, that August sales in this category were outstandingly strong, hence this could be read rather as a normalization and not weakening. The car sales looks rather weak (-4.1% y/y), which might be a function of supply problems in the sector. Most of the categories saw an improvement of the dynamics vs 2019 (we prefer this comparison to y/y due to the fact that 2020 data were heavily impacted by pandemic restrictions). Despite the fact that the data are solid overall, they show that retail sales does not want to return to the pre-pandemic trend despite the strong labour market and the lack of significant pandemic restrictions.

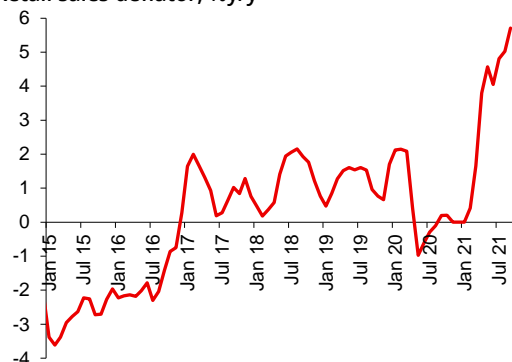
Yesterday's consumer confidence data showed a fall of optimism, which might lower the retail sales and private consumption growth in 4Q21

The retail sales deflator jumped to 5.7% y/y from 5.0% y/y in August and reached the highest level since the comparable data are available (2009).

Headwinds for the construction sector

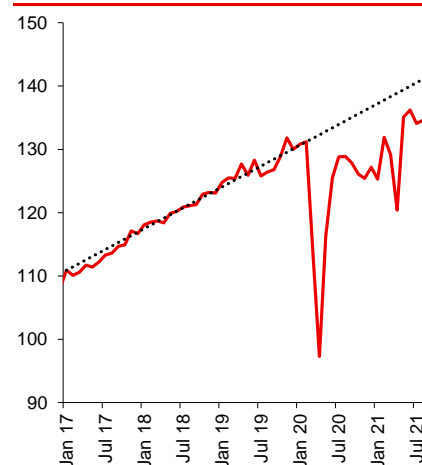
In September Polish construction output was quite depressed at only 4.3% y/y vs 8.2% market consensus and our 6.8% call. In SA terms there was a 2-percent drop, following the August 1.6% m/m rebound (which at the time of the release raised hopes that the public infrastructural investments were back on their feet). Most of the output growth came from specialized works (+21.7% y/y) while civil engineering was up only 1.2% y/y and construction of buildings was down 3.6% y/y. Business surveys show acute problems with securing construction materials and with construction costs. The growing labour shortage and wage pressure are also contributing to the sector's headwinds. We assume that construction sector can maintain the c.4% y/y pace of output growth throughout 4Q, but in the course of 1H21 it may slide below zero.

Retail sales deflator, %/y



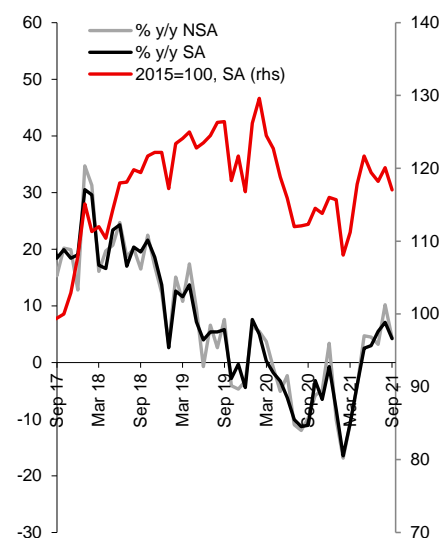
Source: GUS, Santander

Retail sales in Poland, current level vs pre-pandemic trend, SA



Source: GUS, Santander

Construction output in Poland



Source: GUS, Santander

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Further rises on the housing market

In September the number of finished flat advanced by 13.1% y/y while building permits rose by 14.1% y/y. On the other hand, the number of house starts was markedly lower than one year before and fell by 16.3% y/y with the most considerable decline in the developers' sector (-33.7% y/y). This could however be attributed mostly to high statistical base from September 2020, when the house starts recorded a strong one-off jump. Note that the sector is struggling with problems with materials, labour force and land for investment and this could be slowing down the activity in the upcoming quarters.

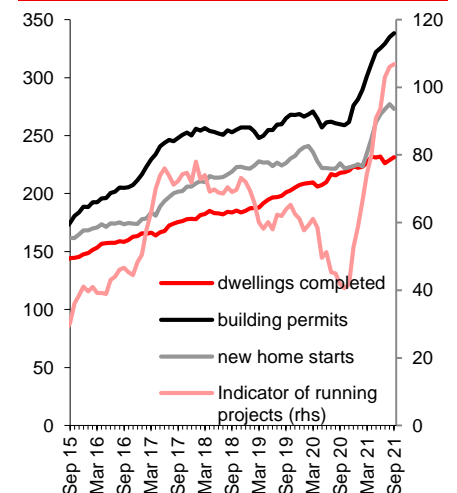
Revision of 2020-2021 GDP data

GUS revised quarterly GDP data for 2020 and 1H21 following a revision of 2020 annual GDP data. In all the affected quarters total GDP growth changes were to the upside in y/y NSA terms. The record high 2Q21 growth of 11.1% y/y was moved to 11.2%, but at the same time its seasonally adjusted q/q measure was slashed from 2.1% to 1.6%. In 2020 the growth breakdown was shifted towards more contribution from domestic demand and less from foreign trade while in 1H21 the opposite was true. Net exports contribution was raised by 0.8pp in 1Q21 and by 0.4pp in 2Q21, but it was still negative (at -1.1 and -0.3, respectively). Out of demand components only investments saw positive revisions (in y/y terms) in all reviewed periods.

Slight revision of GG debt and deficit in 2020

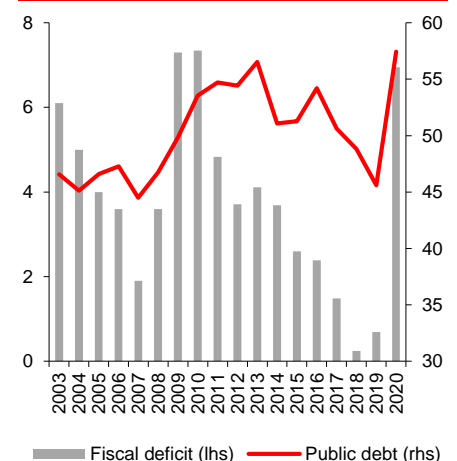
GG deficit in 2020 was revised to 7.1% of GDP from 6.9% of GDP, while revised debt is still at 57.4% of GDP. We are expecting this year's results to show a markedly lower deficit (about 3.5% of GDP) with debt rising to 58% of GDP.

Housing market data, 12M rolling sums, in thousand units



Source: GUS, Santander

General government debt and deficit, % GDP



Source: GUS, Santander

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