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Economic Comment

October data keep surprising to the upside

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In October Polish retail sales rose by 6.9% y/y in constant prices, slightly above market consensus at 6.5% and our estimate at 6.2%. So far it seems that high inflation rates (retail sales deflator jumped to 7.0% y/y, highest in more than 10 years) did not discourage consumers despite a major deterioration in consumer confidence, but we think it is likely to happen in the upcoming months.

Construction output rose by 4.2% y/y in October vs 4.3% in September, slightly above expectations (we: 3.3%, market: 2.9%) after advancing by 2.6% m/m (fastest m/m growth since May). We think that the stronger results of construction constitute a mere rebound after surprisingly a weak September (-2.0% m/m in seasonal terms) and expect a rather muted growth in the months to come.

In October the Polish housing market kept showing very high activity. Our measure of ongoing housing projects to the highest level since early 2008.

Companies employing 50+ persons showed 23.5% y/y rise of turnover, still very high margins and 9.5% y/y rise of real investment outlays.

Retail sales above consensus but still far from trend

In October Polish retail sales rose by 6.9% y/y in constant prices, slightly above market consensus at 6.5% and our estimate at 6.2%. In seasonally-adjusted terms the rise amounted to 1.2% m/m. The higher growth rate can be attributed mostly to fuel sales (6.9% y/y vs 0.4% y/y in September), driven by low base effect caused by muted activity after introduction of new Covid restrictions last year and by clothing, which advanced by 29.3% y/y after weak September's 14.5% y/y (we think this could have been due to weather, as September was really warm, discouraging buying autumn collections). Car sales were a fly in the ointment, as they declined by 5.2% y/y posting the lowest result since January. We think that supply issues are to blame.

So far it seems that high inflation rates (retail sales deflator jumped to 7.0% y/y, highest in more than 10 years) did not discourage consumers despite a major deterioration in consumer confidence, but we think it is likely to happen in the upcoming months. Note that retail sales are continuously deviating downwards from the pre-covid trend.

Construction rebounded after weak September

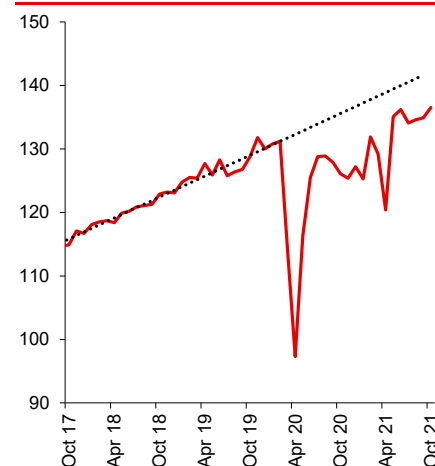
Construction output rose by 4.2% y/y in October vs 4.3% in September, slightly above expectations (we: 3.3%, market: 2.9%) after advancing by 2.6% m/m (fastest m/m growth since May). While the headline was barely changed vs September, the breakdown did alter, with faster growth of investment works (5.2% y/y vs 1.8% y/y in September), as well as slight improvement in construction of buildings (-0.6% y/y vs -3.6% y/y in September) and civil engineering (+3.0% y/y vs +1.2% y/y in September), offset by weaker growth of specialised works (12.7% y/y vs 21.7% y/y in September).

We think that the stronger results of construction constitute a mere rebound after surprisingly a weak September (-2.0% m/m in seasonal terms) and expect a rather muted growth in the months to come. Delay in acceptance of National Recovery Plan is a negative factor for construction in the upcoming quarters.

Housing construction remains strong

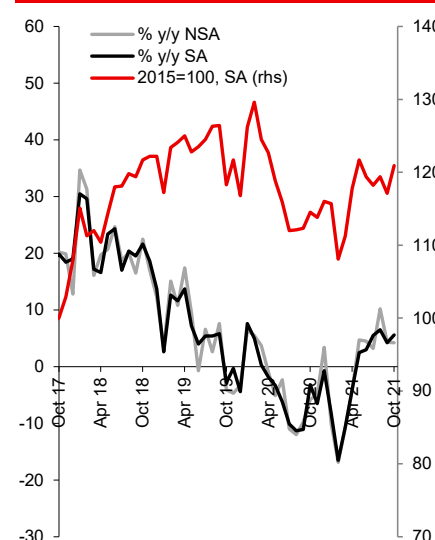
In October the Polish housing market kept showing very high activity. Housing permits were up 6.4% y/y, house starts rose by 15% y/y, but the number of completions fell by 4.8% y/y. This resulted in a further rise of our measure of ongoing housing projects (12M moving sum of permits minus house completions) to the highest level since early 2008. The aggressive interest rate hikes that have started in October may cool down in the following quarters the housing market that showed double-digit price growth in 3Q21.

Retail sales in Poland (sa volume vs trend)



Source: GUS, Santander

Construction output

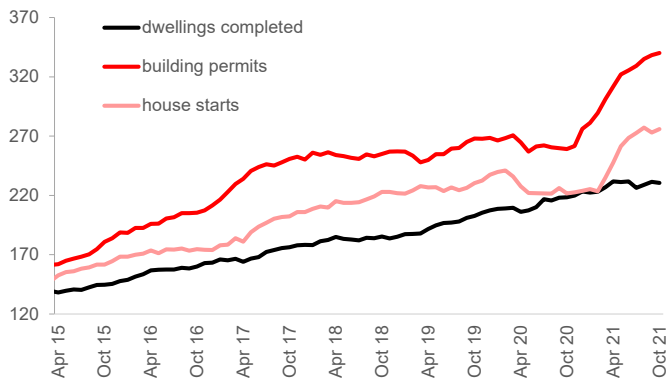


Source: GUS, Santander

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12-month rolling sums of housing statistics (in thousand)



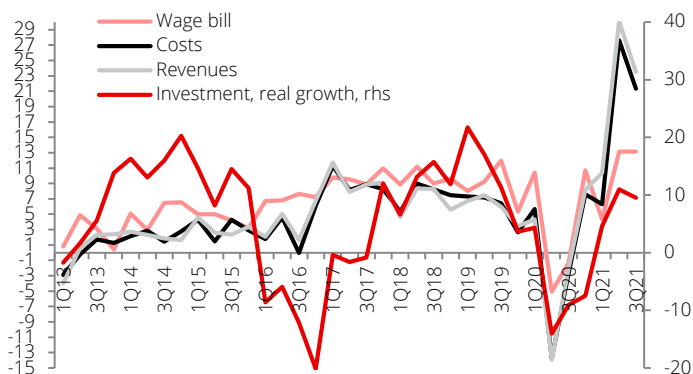
Source: GUS, Santander

Company margins stayed very high in 3Q

According to the aggregate data in 3Q Polish companies employing 50+ persons showed another rapid growth of turnover (23.5% y/y vs. 30.1% previously) exceeding the high growth of costs (21.3% y/y after 27.6% in 2Q). The average profit margin eased a bit from the record high 7.3% in 2Q to also respectable 6.9% in 3Q, fourth highest quarterly print in the course of the last 27 years. Material costs kept growing at a very high pace, 26.9% y/y albeit lower than in 2Q (+49.5%), however the companies' energy bill soared by 32.6% y/y vs. +18.4% in the previous quarter. Wage bill growth remained just above 13% y/y. The high inflation environment also pushed up the costs of insurance (17.8% y/y) and other business services (21% y/y).

The report also revealed some numbers regarding 3Q investments. Companies employing 50+ persons spent 9.5% y/y on investments in real terms vs. 11.0% in 2Q with outlays on buildings recovering by 14.7% y/y after 0.7% in 2Q. This suggests no major acceleration in total investment in 3Q versus 2Q.

Company results and investment outlays, % y/y



Source: GUS, Santander

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