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Economic Comment

Fine sales and construction, turbulences ahead

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In February Polish retail sales growth in constant prices was 8.1% y/y. While the headline growth of retail sales was almost in line with expectations we are surprised to see that contribution of fuel was much higher (2.9pp to y/y headline growth instead of 1.2pp), all other key categories were weaker than we had assumed. Next readings will be supported by extra demand due to massive refugee inflow but dampened by the purchasing power erosion due to very high inflation. Construction output soared 21.2% y/y in February, similar to the previous reading, but going forward the large outflow of Ukrainian construction workers as well as accessibility and prices of building of materials may prove as significant supply constraints.

Retail sales – strong fuel purchases hide potential underlying weakness

In February Polish retail sales growth in constant prices was 8.1% y/y vs. 8.3% market consensus and our 8.2% forecast.

There were three key circumstances affecting the print: introduction of some anti-inflation measures (most importantly VAT cut on fuel from 23% to 8%, zero VAT on basic foodstuffs), growing geopolitical tension leading to the outbreak of war in Ukraine and the surge of oil price, the base effect related to reopening of shopping malls after lockdown in February 2021 (causing large swings in some y/y growth rates). While the headline growth of retail sales was almost in line with expectations we are surprised to see that contribution of fuel was much higher (2.9pp to y/y headline growth instead of 1.2pp), all other key categories were weaker than we had assumed.

Fuel benefitted from the postponed demand from January to take advantage of the VAT cut on one hand and the need of many to have their cars fully refuelled just in case on the other due to the war and the fuel price spike. However there seems to be no significant sign in the February data of the likely precautionary re-stocking of households due to the situation in the neighbouring Ukraine and the extra demand cause by the inflow of refugees – m/m growth of -1.0% m/m was slightly higher than the multi-year average for this month of -1.5%, but came 2pp below our estimate including these factors. This may signal that the demand effect of very high inflation is already weighing on retail trade.

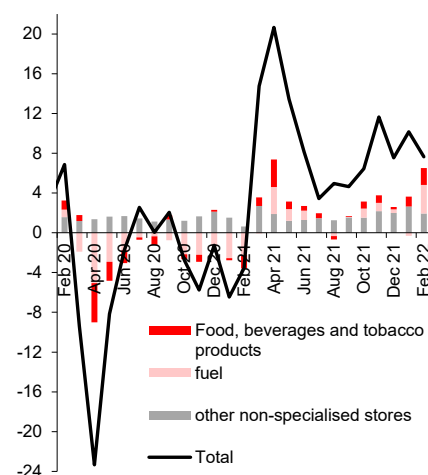
The next months are likely to be more affected by the extra expenditures by Polish households to host refugees amid anecdotal evidence of market shelves emptied of basic products (by now the inflow of refugees to Poland exceeded 2mn people). At the same time because of the high pace at which costs of living and consumer prices in general have been growing in Poland a negative underlying trend is most likely shaping in retail sales, based on weaker household spending power and smaller budgets for discretionary purchases.

Construction output still strong but sharp supply constraints ahead

Construction output soared 21.2% y/y in February, beating our forecast and slightly missing market consensus. Seasonally adjusted growth reached 19.1% y/y and was the highest since late 2018. The fastest production growth was in construction of buildings (38.7% y/y), then in specialised works (22.2% y/y), while civil engineering kept underperforming (2.9% y/y), probably reflecting the continuing malaise in public investments and big infrastructure projects.

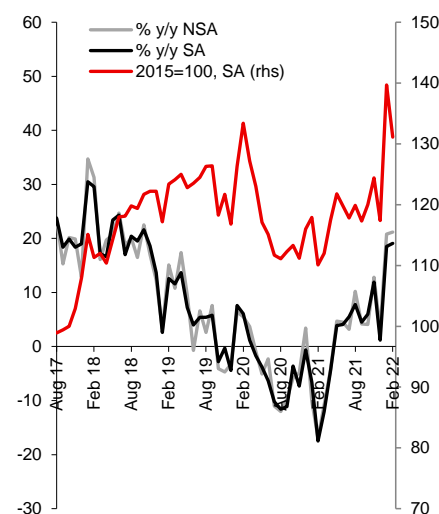
Overall, the data show the resilience of the construction sector, with seasonally adjusted output level comparable with the pre-pandemic peak. The outlook for the coming months may not look equally rosy, though, as the sector has already suffered a lot from the outflow of Ukrainian workers in the first weeks of the war (over 250k men returned to Ukraine from Poland, according to some estimates), and the disruptions in imports of steel, cement and wood from the East may generate the supply-side constraint for the sector.

Retail sales, breakdown of annual growth rate



Source: GUS, Santander

Construction output



Source: GUS, Santander

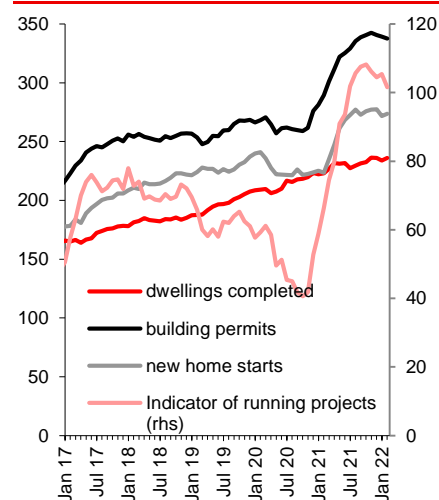
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Building permits for housing projects still going down y/y

In February the housing market activity were better than in January, but in general the momentum has already started to weaken and the war in Ukraine is likely to introduce important changes on the market. 18.4k flats were finished (up 13.2% y/y), house starts were at 17.9k (up 11.2% y/y) but building permits amounted to 25.5k (down by 6.2% y/y) after two months of 5%+ declines y/y). Rising interest rates will contribute negatively to demand for flats, high inflation is affecting households perceived financial standing. The geopolitical situation is discouraging major long-term transactions like house purchases. There are still a lot of housing market projects going on currently, but the large outflow of Ukrainian construction workers as well as accessibility and prices of building of materials question ability of developers to finalise works.

Housing market tendencies, 12M rolling sums in thousands of flats



Source: GUS, Santander

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