22 April 2022

Economic Comment

1Q22 GDP closer to 8%?

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Today we again got to see a set of strong March numbers. Retail sales increased by 9.6% y/y, more than expected, and detailed data showed a surprisingly strong sales of durable goods, including cars and household appliances. Also the construction has embarked on an upward trend and recorded an output increase by 27.6% y/y, even though housing construction is showing declining numbers of new house starts. Business climate indicators showed some improvement in April after the decline in March, but companies are reporting negative effects of the war, mostly rising costs and disruption in supply chains (especially in manufacturing, construction and wholesale trade). Every tenth company in construction, restaurants/hotels and wholesale trade is worried that their financial stability is threatened. At the same time, companies are reporting strong two-way flows of labour force to and from Ukraine. Outflow is dominating in construction, transport and manufacturing, inflow in restaurants/hotels and trade.

March data suggest an upward risk for our GDP forecast in 1Q22 (7% y/y) – we think it is likely to be closer to 8% than to 7%, which is also raising the expected path for the entire year.

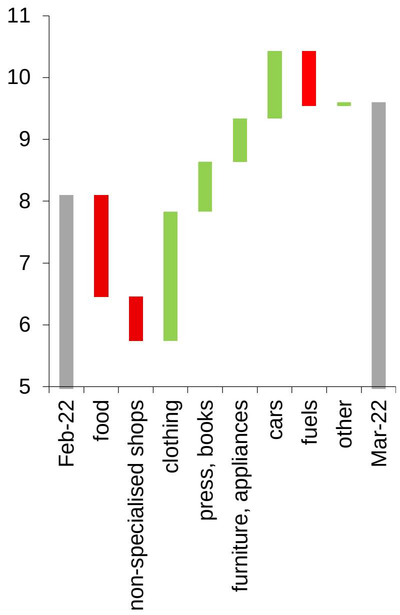
Retail sales surprised both with headline and with breakdown

Retail sales advanced by 9.6% y/y in March, more than we (8.0% y/y) and the market expected (8.8% y/y). We have to admit that the breakdown is quite confusing. Our call was for stronger sales of food and essential goods due to inflow of refugees, but weaker for durable goods due to war-related uncertainty.

Reality showed that trends were the other way round than we thought: sales of food and in non-specialised stores were quite in line with the seasonal pattern, while sales of clothing accelerated to 41.9% y/y from 2.6% y/y in February (we think it is mostly statistical base effect connected to lockdown of shops during the pandemic), car sales spiked to -9.3% y/y from -20% y/y in February, sales of furniture and household appliances to 2.8% y/y from -4.4% y/y (this can be somewhat explained by changes in TV transmission standards and possibly higher purchases of new TV sets), and sales of press, books and in other specialised stores to +7.3% y/y from -8.5% y/y in February.

That having said, we expect retail sales to remain robust in the months to come. While we generally expect some deceleration due to high inflation, the labour market and rise in incomes remains still positive in real terms, supporting consumption.

Retail sales – breakdown of annual growth rate, % y/y



Source: GUS, Santander

Construction keeps on surprising to the upside

Construction output, contrary to expectations, did not lose its outstanding pace in March and recorded 27.6% y/y growth after 21.2% y/y in February (market consensus 14.8%, our forecast 15.5%). Seasonally adjusted growth improved vs. the previous two readings to 24.4% y/y and was the highest since the start of 2018.

Construction of buildings was again the fastest growing part of the sector (+44.9% y/y), but other parts (specialised works at 13.7% y/y, civil engineering at 23.2% y/y – offering the largest contribution to overall y/y construction growth since spring 2019) were also fine, recovering after a softer period.

Weak public investments in the previous quarters were one of the burdens of the sector so the March reading seems quite positive in this respect. What should be noted is that the construction activity was strongly focused in March on repairs (up 44.9% y/y) rather than investment projects (+16.9% y/y). Overall, the data keep indicating high resilience of the construction sector and full recovery from the pandemic trough. While the March employment data did not reveal the outflow of Ukrainian workers (in fact the sector hired 1k more employees) we believe the next months may look worse in this respect (see paragraph on business climate), limiting the potential of the sector to maintain such healthy growth. It is also one of the most

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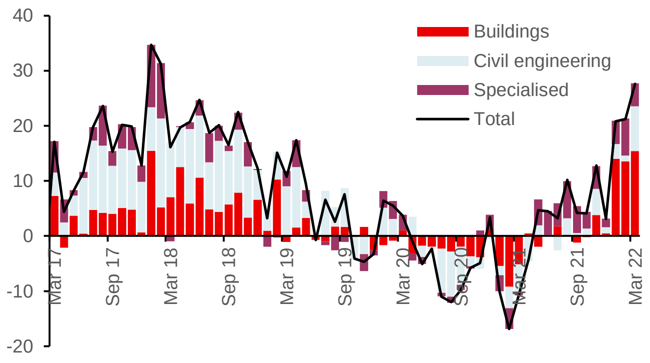
exposed sectors to the supply disruptions caused by the war, requiring imports of steel, cement and wood from the East.

Structure of y/y construction output growth, pp

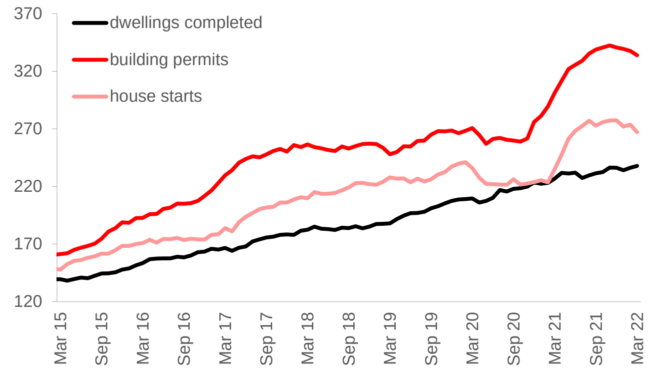


Source: GUS, Santander

House permits on the decline

The data from the housing sector are more and more showing a change of trend towards weaker activity. In March the number of finished flats was still up y/y (by 9%) while new permits were down 11.3% y/y and house starts were down 21.9% y/y. The indicator of ongoing housing projects calculated by us has dropped to the lowest level since June 2021.

12M moving sum of housing activity data, in thousand of dwellings



Source: GUS, Santander

Growing interest rates affect negatively the housing demand and the very high inflation makes households feel worse about their financial situation. Add to this the effect of the war which in our view is all-in-all negative for the housing market. What is more, the quick rise of building materials prices may be putting many housing investments on hold, as well as the scarce availability of labour force in construction..

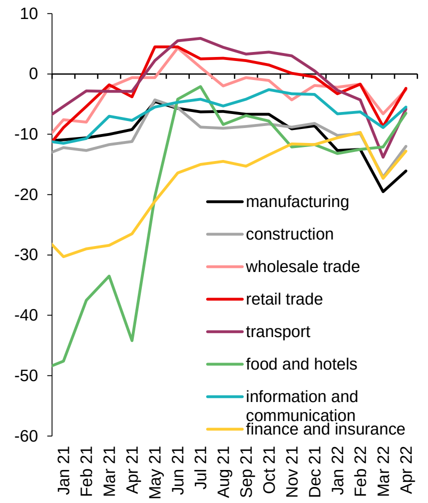
Companies a bit more optimistic, but worry about the war

In April the business climate indicators improved in all covered sectors, after a decline in March connected to the outbreak of war. Sentiments in transport improved by most (+8 points), followed by retail trade (+6.5 points). Note however that all sectors are below their long-term average.

GUS also released results of survey on impact of war in Ukraine on economic activity. Most companies report negative effects of the war, with about 10% of companies in restaurants and hotels, construction and retail trade viewing these as threatening for their financial stability. No negative effects are reported only by between 7.1% of companies in restaurants and hotels to 16.1% of companies in wholesale trade.

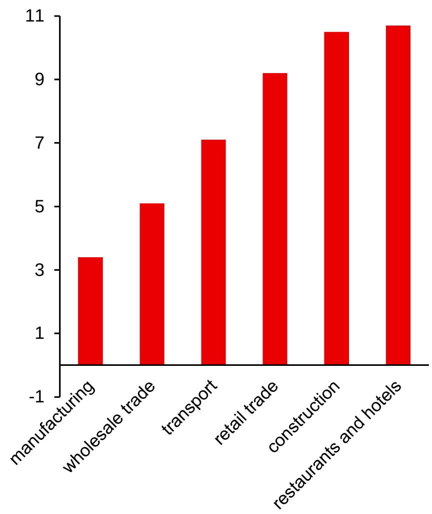
Most commonly observed effects of the war are: rising costs (reported by between 61.4% in wholesale trade to 86.6% in construction), disruptions in supply chains (between 14.4% in restaurants and hotels to 63.7% in manufacturing) and decline in sales (between 17.1% in construction to 47.7% in restaurants and hotels).

Business climate indicators, deviation from average, pts



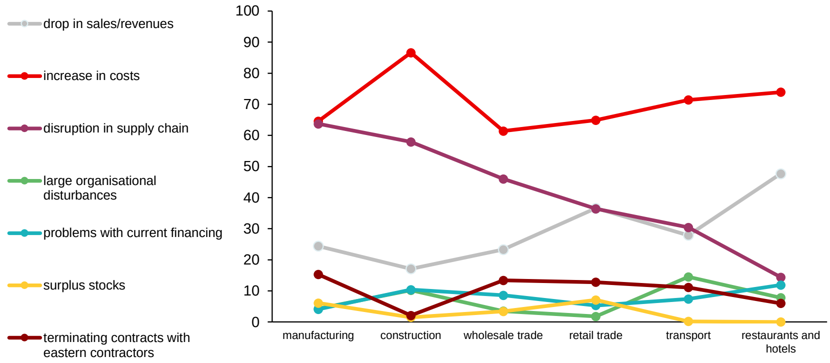
Source: GUS, Santander

Share of companies reporting that effects of war in Ukraine threaten their stability



Source: GUS, Santander

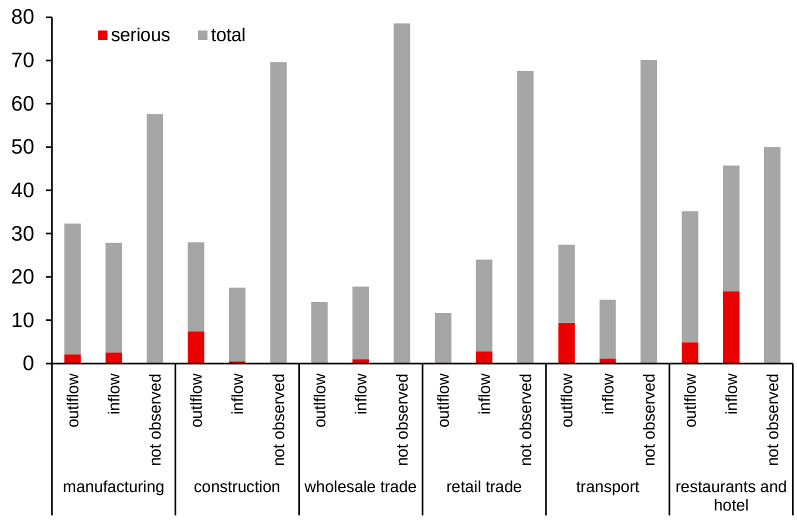
Detailed negative effects of war in Ukraine



Source: GUS, Santander

All main sectors noted strong flows of workers to and from Ukraine, but on average less than half of companies are dealing with this issue. Outflow is dominant in transport, construction and manufacturing, inflow – in restaurants and hotels, retail and wholesale trade.

Firms reporting inflow or outflow of workers from Ukraine



Source: GUS, Santander

Results of business climate survey point to a rather strong negative effect of war in Ukraine on Polish companies. However, so far it was not visible in hard data, at least as regards volumes of output, sales or employment. In our view it should become more and more visible in hard data in the upcoming months.

GDP data revision

GUS reviewed quarterly GDP numbers. It pushed up Poland's economic growth in y/y terms in all quarters of 2020 and 2021, including 4Q21 to 7.6% y/y from 7.3% (and the seasonally adjusted growth in this quarter to 7.9% y/y). After the revision the 2020 growth is -2.2% instead of -2.5% and 2021 growth is 5.9% instead of 5.7%. Looking by category, the revisions were mostly about higher investment growth in 2020 (to -5% from -9%) but lower investment in 2021 (down to 4% from 8%). GUS also adjusted higher the net exports data in 2021 (mostly by showing higher import deflators) which outweighed the effect of reduced investment growth.

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