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Economic Comment

Sales and construction do not give up yet

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Retail sales advanced by 8.2% y/y in May, slightly below expectations. The decline from April's 19.0% y/y is mainly caused by the closures and reopening of shopping malls during the pandemic. Fuel sales seems to be advancing markedly slower than usually, which can be a result of very high fuel prices due to the war in Ukraine. We think that retail sales will be slightly slowing down in the later months of the year. In May Polish construction output growth increased from 9.3% y/y to 13.0% y/y while we and the market consensus had expected the surprising April weakness to hold. Despite this we continue to forecast slowdown in the sector amid supply and labour constraints and reduced demand for housing

Industry entered a slowdown period

Retail sales advanced by 8.2% y/y in May, slightly below expectations (we: 8.6% y/y market: 8.8% y/y). The decline from April's 19.0% y/y is mainly caused by the closures and reopening of shopping malls during the pandemic.

Sales generally remain robust, with most categories developing in line with the seasonal pattern. Only fuel sales seems to be advancing markedly slower than usually, which can be a result of very high fuel prices due to the war in Ukraine. On the other hand, we find it puzzling that the retail sales deflator covering fuel is far from the same category in CPI, which suggests that this part of sales in constant prices may be underestimated.

We find it difficult to point out the effect of population growth associated with the inflow of refugees from Ukraine in the retail sales data from recent months, which one would expect to see in food sales at least. This is consistent with our assumption that the inflow of refugees will not have a significant impact on consumption growth in the short term.

We think that retail sales will be slightly slowing down in the later months of the year. In May, the annual CPI growth finally exceeded the y/y wage growth and we believe such situation will continue for the next few months, which will be weighing on retail sales and private consumption.

Another surprise in construction – this time to the upside

In May Polish construction output growth increased from 9.3% y/y to 13.0% y/y while we and the market consensus had expected the surprising April weakness to hold (median forecast for the May release was 8.0% y/y). In m/m SA terms construction output recovered by 2.4% after a 5.1% April decline. Despite the substantial improvement of headline growth, the seasonally adjusted y/y growth stayed at 9.8% y/y because there was a particularly strong positive working day effect in May.

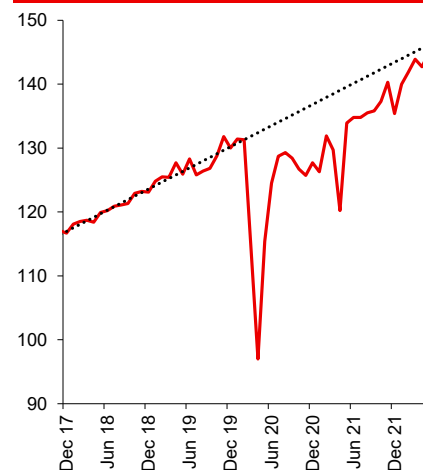
The most volatile component recently is the construction of buildings – it rose 34.7% y/y and added 3.5pp more to the headline construction growth than in April. Civil engineering and specialised works saw output gains of 3-4% y/y. Just like in April, there was a much higher output growth in maintenance projects (28.7% y/y) than in investment projects (3.6% y/y).

Despite the positive surprise in May we continue to forecast slowdown in the sector amid supply and labour constraints and reduced demand for housing. We expect construction output growth of less than 10% y/y on average in 3Q22 and less than 5% in 4Q22.

Housing sector – still many completions and not that many starts

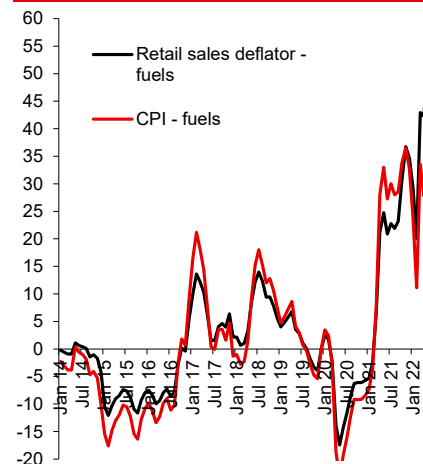
In May the housing data kept showing high completions (+12.4% y/y in May, +4% y/y in Jan-May period) but declining house starts (-23.1% y/y in May, -17.8% y/y in Jan-May period). While the stream of new permits is still strong (up some 2% y/y from the very high levels of 2021) it seems that developers and individuals, faced with high and

Retail sales, seasonally adjusted, volume (2015=100) vs pre-covid trend



Source: GUS, Santander

Retail sales deflator and CPI for fuels, % y/y



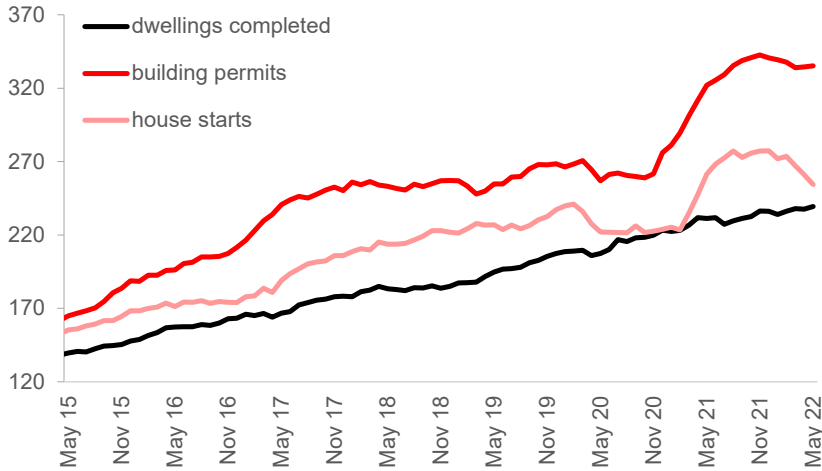
Source: GUS, Santander

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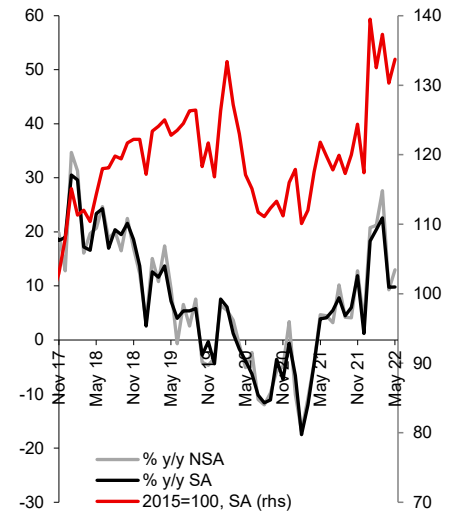
growing construction and credit costs, relatively often choose to put works on hold. Such behaviour is a drag on construction output growth.

Polish housing data, 12M rolling sum, in thousands of dwellings



Source: GUS, Santander

Construction output in Poland



Source: GUS, Santander

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