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# Economic Comment

## Everything slows down

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Retail sales decelerated in July to 2.0% y/y from 3.2% in June, close to our forecasts (2.3% y/y while the market has expected 1.1% y/y). In general sales are under negative spell of high inflation and eroding purchasing power of consumers. We are thus expecting retail sales to remain muted in the upcoming quarters. Construction production rose 4.2% y/y in July, down from 5.9%, while our forecast was 6.2% and market consensus at 5.6% y/y. We continue to see ongoing slowdown in the sector amid supply and labour constraints and worse demand for housing. Recent poor performance of industries supplying the construction sector also signals a further slowdown. House starts have been falling sharply since the start of the year and now building permits seem to be changing direction to the downside. We expect construction output growth to turn negative in late 2022. In August, Polish companies saw the business climate slightly worse than in July.

### Retail sales slow down

Retail sales decelerated in July to 2.0% y/y from 3.2% in June, close to our forecasts (2.3% y/y while the market has expected 1.1% y/y). In seasonally-adjusted terms sales declined by 0.1% m/m. Almost all categories recorded a decline of annual growth rate of sales.

Durable goods were declining further (-9.8% y/y in July vs -8.7% y/y in June). Even though furniture and household appliances recorded an improvement in annual growth rate, it was achieved mostly thanks to low statistical base from June 2021. Fuel sales finally showed some rebound after four months in a row of clearly below-average results and we think it can be attributed to falling gasoline prices (yet annual growth rate was still lower than last month).

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### Construction sector slows down

Construction production rose 4.2% y/y in July, down from 5.9%, while our forecast was 6.2% and market consensus at 5.6% y/y. Just like in the industrial output release, the Stats office applied a large correction for seasonal factors, leading to the SA construction growth rising in July to 7.7% y/y from 6.7% (but still down 0.5% m/m). The SA level of output was in July the lowest so far this year and more less in the same place as in the final month before the pandemic.

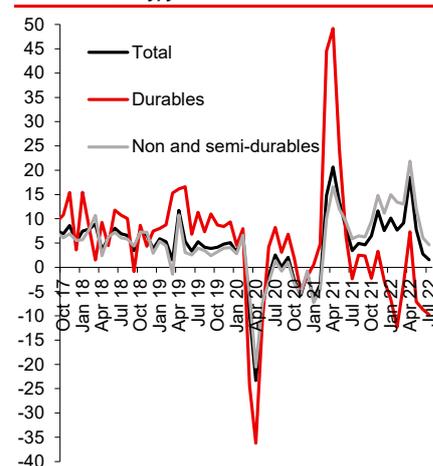
In terms of y/y growth there was still a 11.7% rise in construction of buildings (sliding from some 40% y/y on average in 1Q), output in civil engineering was up 2.2%, specialised works fell 1.4%.

We continue to see ongoing slowdown in the sector amid supply and labour constraints and worse demand for housing. Recent poor performance of industries supplying the construction sector also signals a further slowdown. We expect construction output growth to turn negative in late 2022.

### Housing market slows down

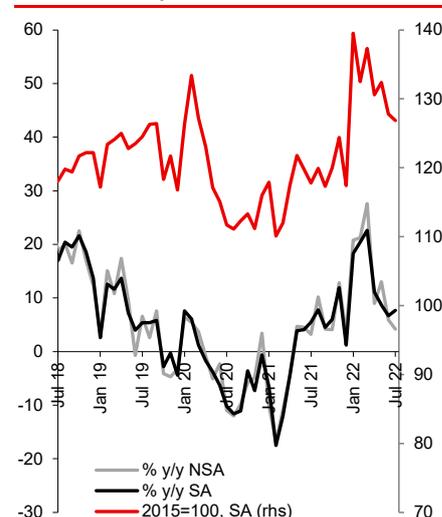
In July the housing market statistics turned worse: dwellings completed were down 7.3% y/y (previously +3.6%), building permits dropped by 23.9% y/y and house starts dropped by 36.9% y/y (the worst reading since April 2020). In 12M rolling-sum terms the house completions are still following an uptrend, house starts are falling sharply since the start of the year and now building permits seem to be changing direction to the downside. The GUS estimate of houses under construction fell in July for the first time since February but is still very close to the all-time high from October 2021. In our view the outlook for the market is

Retail sales, % y/y



Source: GUS, Santander

Construction output



Source: GUS, Santander

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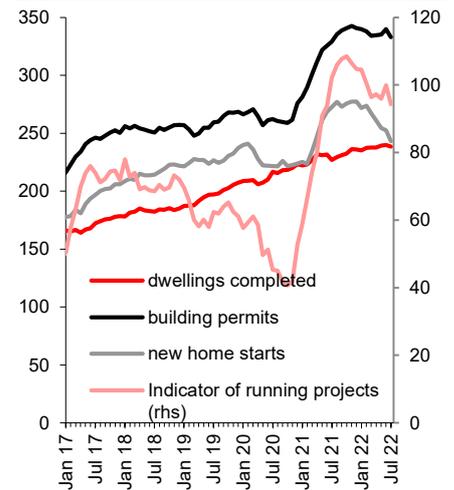
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clearly negative given the rapid increase of costs of construction and mortgage, and the more cautious approach of households in high inflation environment.

**Business sentiment slows down**

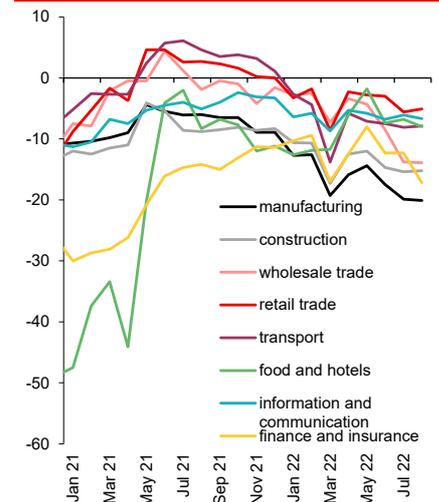
In August, Polish companies saw the business climate slightly worse than in July. According to the GUS survey, business climate assessment worsened in accommodation and catering, information and communication, and finance and insurance. They improved slightly in transport and retail trade, and were roughly stable in manufacturing, wholesale trade and construction. All indicators remain clearly below their long-term averages and are consistent with the slowing economy.

**Housing market indicators, 12m sums**



Source: GUS, Santander

**Business climate indicators, pts, difference vs long-term average**



Source: GUS, Santander

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