

21 September 2022

## Economic Comment

### Retail sales and construction output above forecasts

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Retail sales rose in August by 4.2% y/y, beating market consensus (3.3%) and our estimate (1.1%) and showing the largest m/m SA growth since January. The MPC may use the print as a reason to consider another rate hike seeing that consumer demand has not been cooled yet. Despite the positive surprise we still see consumers as pressured by high inflation denting their purchasing power. The main consumer confidence indexes are still very low. The job security gauge, which so far was surprisingly irresponsive to the looming recession, worsened significantly in September. Construction production rose 6.1% y/y in August, up from 4.2%, against our forecast of a slowdown to 1.9% and the consensus at 4.3%. We think the slowdown in the construction sector is pretty much imminent amid supply and labour constraints, reduced housing demand. The GUS estimate of houses under construction showed the first negative y/y reading since mid-2014.

#### Retail sales growth surprises to the upside

Polish retail sales in constant prices rose in August by 4.2% y/y, beating market consensus (3.3%) and our estimate (1.1%). In SA terms this means a 1.6% m/m rebound after 0.1% decline, the strongest print since January. All main categories except fuel were stronger than we had expected. Durable goods sales decline was 4.5% y/y, much smaller than in the previous months (July -9.8% y/y, June -8.7%). The drivers of the August acceleration were the sales of food, sales in non-specialised stores as well as car dealers' activity. Despite the positive surprise we still see consumers as pressured by high inflation denting their purchasing power. The government's new measures to limit households' energy bills might offer some support for retail sales numbers in 2023, but we still think they will show negative growth in the final months of this year and in 1H23. That said, from the point of view of the MPC the August retail sales reading may be a sign that consumer demand has not been cooled yet, adding this to the arguments for another rate hike.

#### Consumers start to see the risk of unemployment

Polish consumer confidence showed a minor m/m improvement when it comes to current situation assessment (the September reading was an all-time low, this one is the second lowest with data collected from 2004) and a significant deterioration in the part describing the outlook (the index is now the lowest since May 2020). The major purchases index, which is quite low and volatile recently, showed in September a significant improvement. At the same time consumers were downbeat when describing future ability to make large purchases. What is more the job security gauge, which so far was surprisingly stable and irresponsive to the looming recession, worsened significantly to the lowest level since April 2021.

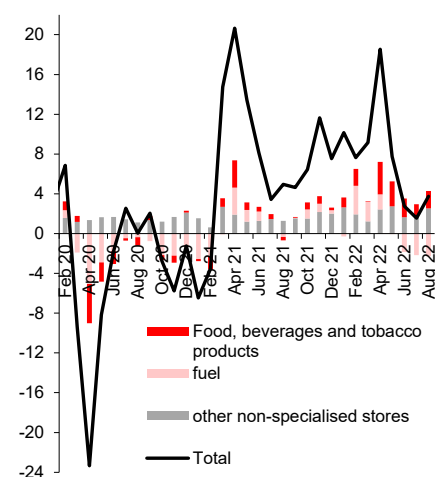
#### Construction output grew more than expected

Construction production rose 6.1% y/y in August, up from 4.2%, against our forecast of a slowdown to 1.9% and the consensus at 4.3%. The SA growth was 7.2% y/y, which is also more less the average of the last three prints. After two months of falling contribution to headline output growth, construction of buildings jumped to 25.7% y/y from 11.7%, while the other two main components: civil engineering and specialised works showed a fall of 1-2% y/y. We think the slowdown in the construction sector is pretty much imminent amid supply and labour constraints, reduced housing demand due to high interest rates and uncertainty. We expect construction output growth to decrease in the coming months and fall below zero in December 2022.

#### Housing market

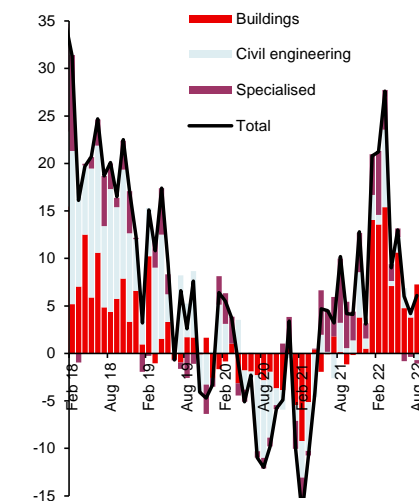
In August the housing market kept reducing its activity. Dwelling completions were just 0.2% lower than a year earlier, but building permits dropped by 19.1% y/y and house starts by 46.2% y/y (this is an even larger drop than the one at the start of the pandemic). The GUS

Real retail sales, % y/y, and contributions of selected components



Source: GUS, Santander

Structure of construction output growth, %y/y



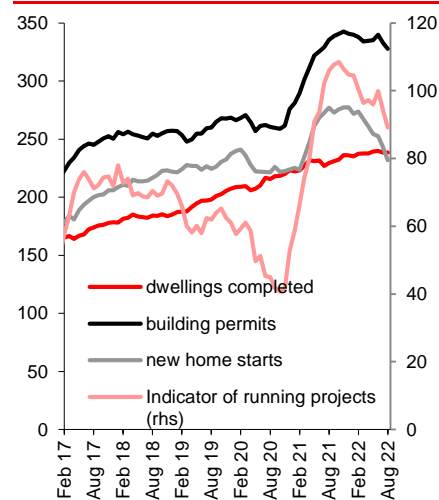
Source: GUS, Santander

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estimate of houses under construction showed the first negative y/y reading since mid-2014. In our view the market outlook remains negative given the rapid increase of costs of construction and mortgage, and the more cautious approach of households in high inflation – high economic uncertainty environment.

Housing market indicators, 12m sums



Source: GUS, Santander

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