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Economic Comment

Retail sales outcome more solid than in construction

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Retail sales rose by 4.1% y/y in September vs. 4.2% y/y in August, coming between our 3.5% forecast and the market consensus of 4.5%. The result was strongly dragged down by fuels. We expect a gradual slowdown in retail sales in the coming months, given diminishing purchasing power of households. Construction output rose by just 0.3% y/y in September, down from 6.1% y/y in August, against market consensus and our forecast that there could be a slight acceleration. Output next year could be marked by significant declines. A broad deterioration in expectations was seen in October sectoral business sentiment indicators.

Retail sales under pressure from fuels

Retail sales rose by 4.1% y/y in September vs. 4.2% y/y in August, our forecast at 3.5% y/y and market forecast at 4.5% y/y. Durables improved somewhat to -3.7% y/y from -4.5% y/y, with non-durables fairly stable at 6.0% y/y versus 6.1% y/y in August. In seasonally adjusted terms sales improved by 0.9% m/m.

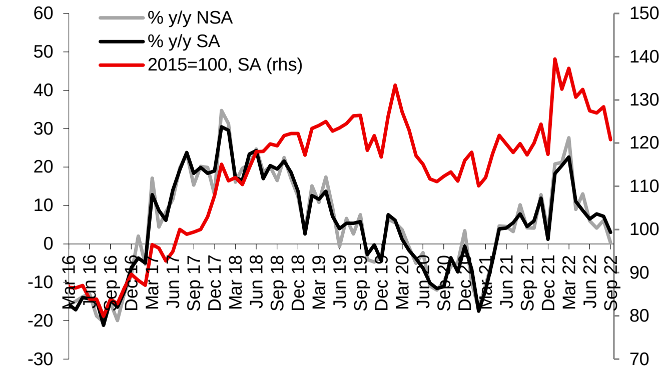
Car sales provided a quite strong performance for a second month in a row and showed -2.9% y/y (-6.8% y/y in August). Sales of household appliances surprised to the upside and fell by 4.3% y/y versus -2.8% y/y in August. However, fuel sales were the main underperformer and fell by 10% m/m as compared to average seasonal decline at 4-5% m/m. Sales ex fuels accelerated to 9.1% y/y from 7.8% y/y. Other categories were more or less in line with expectations, but note that clothing accelerated to 25.2% y/y from 8.4% y/y in August, which was however mostly due to a very strong sales in this sector in August 2021 and then weaker in September 2021.

We are expecting retail sales to be gradually decelerating in the months to come, given diminishing purchasing power of households.

Construction output barely growing in October

Construction production rose by a mere 0.3% y/y in September, down from 6.1% y/y and against market consensus and our forecast that there could be an acceleration to 6.5%. The SA growth looks a bit better at 3.0% y/y, down from 7.2% y/y, but only in annual terms - the m/m collapse as large as the September one, -5.9%, was seen only once since the start of the pandemic. Recent headline prints are influenced to a great extent by swings in construction of buildings – this time the component contributed 4.5pp less to the y/y headline than in August.

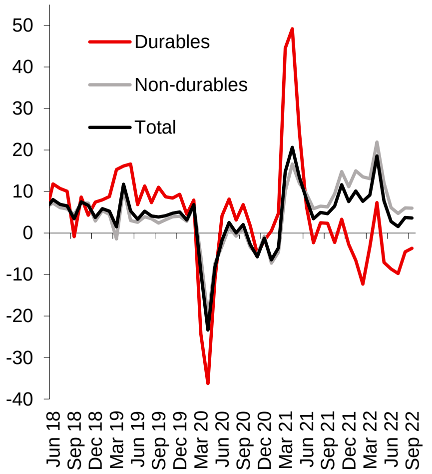
Construction output in Poland, %y/y



Source: GUS, Santander

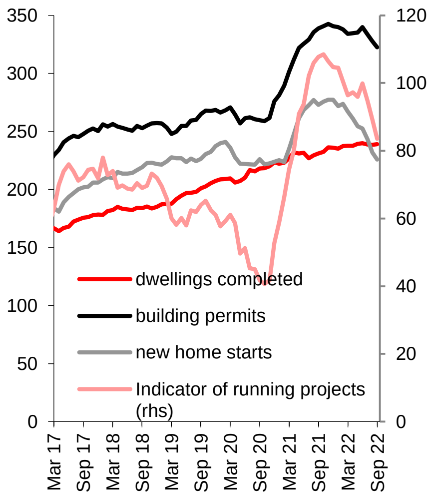
Housing market activity is already falling and there is a collapse in mortgage loans. What is more, recent signals that the EU may block cohesion funds to Poland may also affect the launch of public investments next year, depressing further the results of the construction

Retail sales, % y/y



Source: GUS,, Santander

Housing market statistics, annual sums



Source: GUS, Santander

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sector. We think that the average fall of output growth in construction may be -5% next year, with a risk of a much worse result.

Housing market still in doldrums

Despite the poor performance of total building construction, the housing market showed a slightly improved statistics compared to August, but this was mainly due to the statistical base effect and the sector still remains deep under water. The number of completed dwellings completed rose in September by 1.6% y/y (-0.9% y/y in August), while building permits fell by 19.4% y/y (-21.0% y/y in August), and construction starts fell by 27.6% y/y (-46.3% y/y in August). The indicator of running projects fell to 83.5 points, the lowest since April 2021. In our view, the slump in the housing market will last at least a few quarters.

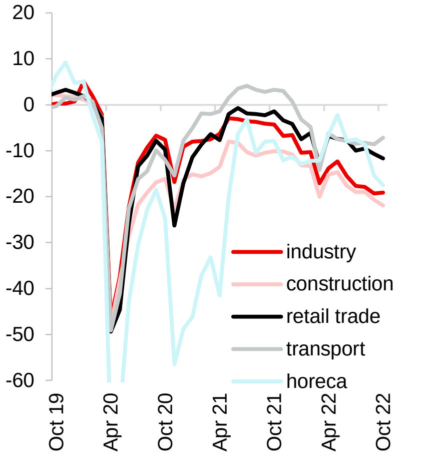
Slight revision of debt and government deficit data

GUS published revised debt and public deficit data. The changes were minute and, for the most part, did not affect the value of the indicators compared to GDP. The change in the first decimal place only occurred for the deficit in 2021, which was revised to 1.8% of GDP from 1.9% of GDP.

Sectoral business expectations indexes went down

Polish sectoral business climate indicators for October showed a mixed pattern. Some improvement was felt in wholesale trade and transport, stabilisation in industry albeit at a historically low level (since 1996 the level was worse only in the first months of the pandemic), while deterioration was seen in construction, retail trade, hotels and restaurants, IT, financial and insurance services. The common element for all sectors was a decline of the expectations indexes. The monthly changes to the assessment of current situation varied across sectors. In October the share of industrial companies facing supply chain disruptions rose to 57% from 50%, while in wholesale trade fell to 36% from 45%. The general message is that slowdown continues and pessimism about the economic outlook is so far only growing.

Sectoral business sentiment indexes, SA



Source: GUS,, Santander