

## Economic Comment

### Profit margins collapsed, weaker retail sales

Marcin Luziński, tel. +48 510 027 662, [marcin.luzinski@santander.pl](mailto:marcin.luzinski@santander.pl)

Grzegorz Ogonek, tel. +48 609 224 857, [grzegorz.ogonek@santander.pl](mailto:grzegorz.ogonek@santander.pl)

Retail sales slowed more than expected, to 0.7% y/y in October from 4.1% y/y in September (we expected 2.9%, market: 3.1%). The weakness was quite broad-based. High inflation and slowing wage growth is taking its toll on consumers. We think that the upcoming quarters will be challenging for retail sales and for consumption. In October Polish construction output rose by 3.9% y/y, beating market consensus at -0.8% y/y and our estimates of -2.1% y/y, yet we still see negative growth in the coming months and in most of 2023. Financial results of companies employing 50+ in 3Q22 show a major deterioration and a spectacular collapse of profit margins.

#### Retail sales stagnating

Retail sales slowed more than expected, to 0.7% y/y in October from 4.1% y/y in September (we expected 2.9%, market: 3.1%). The weakness was actually quite broad-based, with durables falling by 5.2% y/y versus -3.7% y/y in September and non-durables slowing to 2.2% y/y from 6.0% y/y.

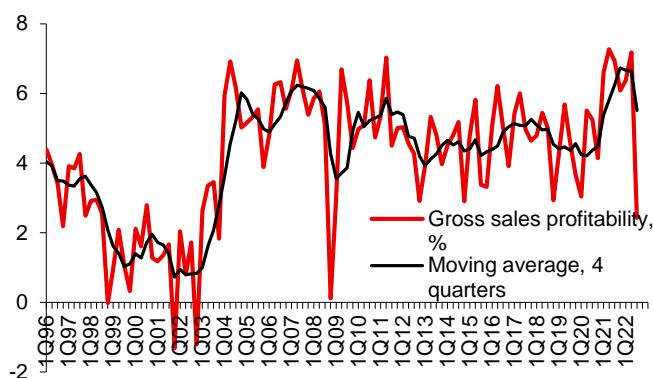
All main categories recorded a decline in annual growth rate, with most pronounced declines in clothing (to 14.3% y/y from 25.2% y/y, but mind that September was supported by low statistical base from September 2021), press, books and other sales in specialised stores (-3.3% y/y from +2.5% y/y) and food (to 2.4% y/y from 7.8% y/y, this category was also the main contributor to total slowdown in retail sales). Fuel sales were least affected, as they slowed to -20.5% y/y from -20.4% y/y. Note however that this category has underperformed for months.

High inflation and slowing wage growth is taking its toll on consumers. In 1H22, consumption was financed by declining saving rate, but it is already close to zero and there is not much more space to go down. We think that the upcoming quarters will be challenging for retail sales and for consumption.

#### Major deterioration in financial results

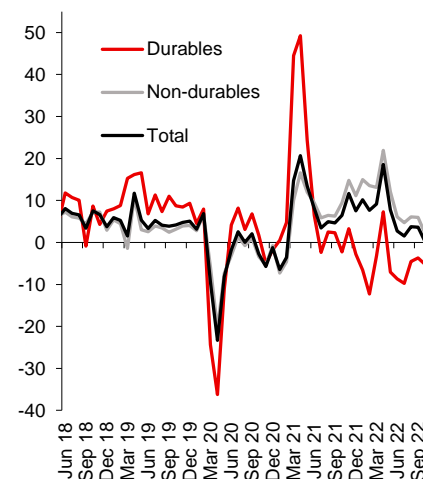
Financial results of companies employing 50+ in 3Q22 show a major deterioration in margins. Revenues advanced by 30.0% y/y and costs by 32.2% y/y. Energy costs surged by as much as 93% y/y. These developments have dragged the gross financial results down by 54.6% y/y and profit margin down to 2.4% from 7.2% in 2Q22 (and from 6.9% in 3Q21). Decline in profitability in 3Q22 was actually spectacular; it was the second biggest drop since comparable data are available (1996), outranked only by decline during the GFC (4Q2008).

#### Gross sales profitability in companies employing 50+, %



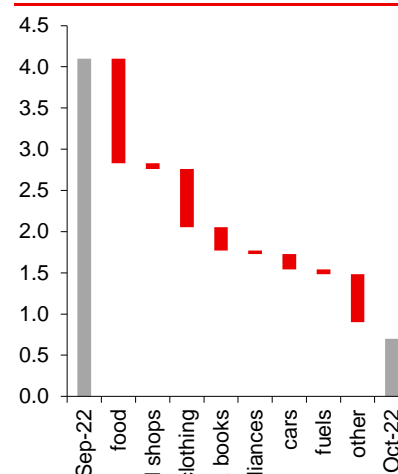
Source: GUS, Santander

#### Retail sales, % y/y



Source: GUS, Santander

#### Retail sales, breakdown of annual growth rate, %



Source: GUS, Santander

#### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa

email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)

website: [santander.pl/en/economic-analysis](https://santander.pl/en/economic-analysis)

Piotr Bielski +48 22 534 18 87

Jarosław Kosaty +48 887 842 480

Marcin Luziński +48 510 027 662

Grzegorz Ogonek +48 609 224 857

Investment slowed down to 5.7% y/y from 7.4% y/y in 2Q22. Spending on buildings increased by 6.3% y/y (14.9% y/y in 2Q22), on machinery and appliances by 5.7% y/y (3.3% y/y in 2Q22), on transport by 6.5% y/y (3.7% y/y in 2Q).

We are expecting companies' results to be under pressure in the upcoming quarters, and this will negatively affect their propensity to invest, employ and raise wages.

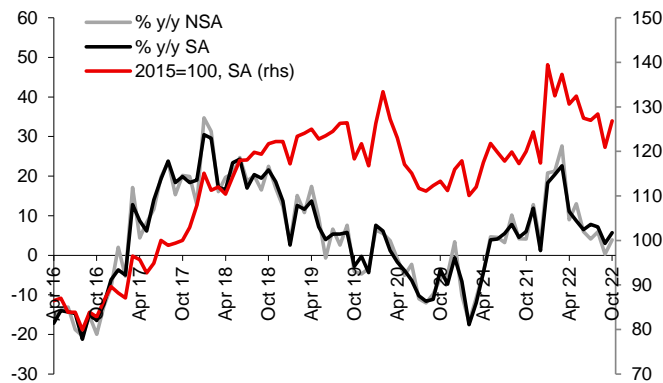
### Construction output surprised positively, but outlook remains poor

In October Polish construction output rose by 3.9% y/y, beating market consensus at -0.8% y/y and our estimates of -2.1% y/y by a wide margin. The positive surprise comes after a meagre 0.3% y/y September print, but to us it does not mean the end of a negative trend, it looks more like a shift in time of some works. October was also exceptionally warm and relatively dry, offering good conditions for the sector's activity. In SA terms the growth of construction output was 5.7% y/y (a 5.0% m/m rebound after a 5.9% collapse) vs. 6.0% y/y 3Q average, 8.8% in 2Q and 20.8% in 1Q.

Specialised works were behind the October rebound, and activity related to repairs and maintenance (up 15.6% y/y) rather than outright investments (output down 3.3% y/y).

We continue to expect negative construction output growth in the coming months and in most of the months of 2023 amid poor private sector investment sentiment and government pledge to cut public investments next year to improve its fiscal position.

### Construction output in Poland, %/y



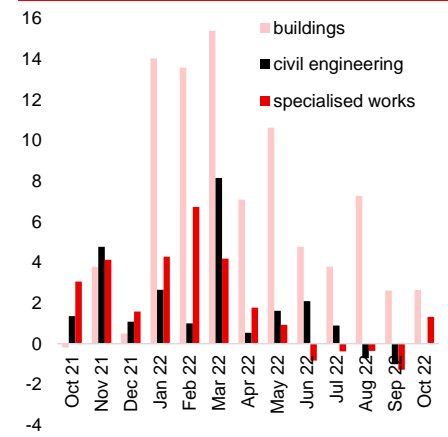
Source: GUS, Santander.

### Housing market showed deeper declines

Polish housing market showed in October a reversal of the slight September improvement. The number of dwellings completed returned to negative y/y growth (-1.4% vs. +1.6% previously). The fall in building permits was back below 20% y/y (-28.9%, the weakest growth since 2013). Construction starts were down 40.1% y/y (-27.4% y/y in September). The GUS estimate of dwellings under construction showed the third negative y/y print in a row (-2.3%) after 8 years of positive readings. The indicator of running projects (the 12M moving sum of difference between completions and permits) at 75.5k was the lowest since March 2021.

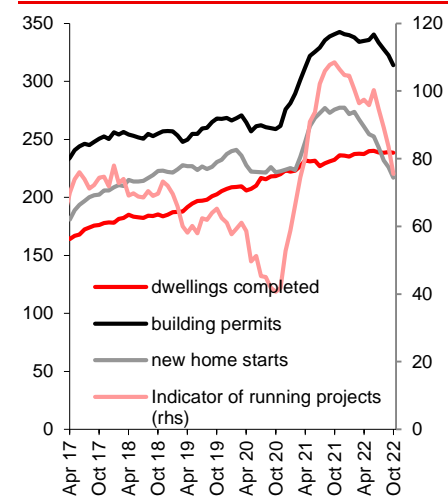
In our view, the slump in the housing market will not vanish quickly and will depress construction output in 2023.

### Contribution from main categories to Polish y/y construction output growth



Source: GUS, Santander

### Polish housing market tendencies, 12M moving sum, in thousand units



Source: GUS, Santander

*This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.*

*Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw, Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.*