23 January 2023

Economic Comment

Activity slowing more than expected

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December data on industrial and construction output as well as on retail sales showed a stronger deceleration than expected (to 1.0% y/y, -0.8% y/y, 0.2% y/y, respectively), after a rather strong November, and we think their annual growth rates are likely to fall below zero in the coming months. In our view, the data suggest that GDP growth in 4Q22 was close to 2% y/y, roughly in line with our forecast. PPI inflation, on the other hand, fell less than expected in December, to 20.4% y/y. The data are in line with our macroeconomic scenario: the real economy is decelerating and will apparently record a bottom of this cycle in 1Q23, while inflationary trends will prove more persistent than the market anticipates. For the central bank, the ambiguous data set is an argument to maintain a wait-and-see attitude while waiting for clearer and more reliable signals on the outlook for the economy and inflation.

Industrial output slowed more than expected

Poland's industrial output rose in December by 1.0% y/y, less than expected (market consensus 1.7%, our forecast 1.4%). The previous reading was corrected down to 4.5% y/y from 4.6%. In seasonally adjusted terms, output rose by 5.6% y/y, with m/m growth showing a significantly positive print of 0.7% despite the very strong November (reported a month ago at 2.7% m/m).

Non-durable consumption goods was the only industrial output group with rising growth rate (to 8.9% y/y from 7.5% y/y). Consumer durable goods industry recorded a drop of 7.9% y/y and intermediate goods output fell by 2.5% y/y which is its first negative reading in this slowdown. Investment goods output was also weakening (10.7% y/y vs. 13.8% previously and 26.3% in October).

Quite positive results were recorded in manufacture of cars, rubber products and plastics. Unusually strong m/m growth rates were printed in manufacture of clothing and tobacco products. On the other hand, weak results were posted by manufacture of medicines, computers (after unusually strong November), machinery/appliances and other transport.

The industrial production data confirm further slowdown in the sector. Soft indicators have been signalling some recovery already taking place, but we doubt this could prevent a further decline of output growth - we see most of its 1Q23 readings below zero.

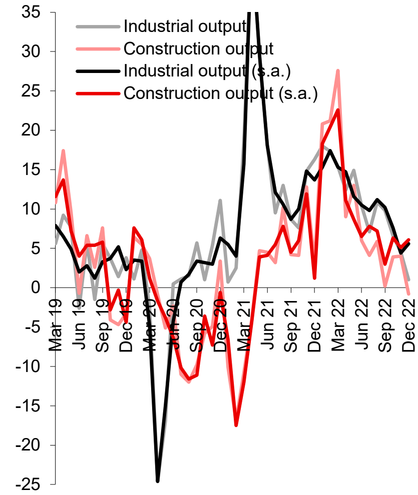
Retail sales close to zero

Retail sales slowed to 0.2% y/y in December from 1.6% y/y in November, below expectations (Santander: 1.2%, market consensus: 1.4%). Durable goods sales slowed to -7.3% y/y from -7.1% y/y and non-durable goods sales to 1.9% from 3.8%. The latter was the worst since February 2021.

Weakness was quite broad based, e.g. in sales of food (1.9% y/y vs 4.8% y/y in November), other sales in non-specialised stores (11.8% vs 15.0% in November), clothing (7.2% y/y vs 18.9% y/y) and books/press (-8.0% y/y vs -0.1% y/y). As regards clothing, a change in seasonal pattern due to unusual weather in a couple pf previous months is clearly visible. As regards sales in food and non-specialised stores, these categories may be under negative effect of Christmas, as many refugees from Ukraine could have decided to spent holidays in their home country. However, so far we only have anecdotal evidence on this matter.

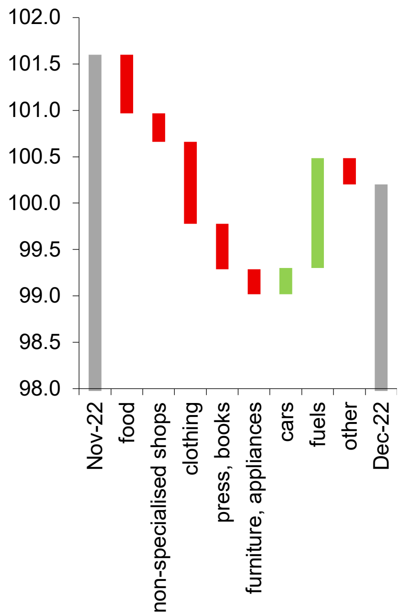
On the other hand, car sales surprised to the upside (-2.8% y/y vs -6.4% y/y), which may have been achieved thanks to a gradual improvement in supply chains in this sector. Fuel sales also saw a major improvement: -7.8% y/y vs -14.4% y/y. This category could have been supported by lower temperatures and thus higher coal sales in December. We also do not rule out increased car fuel sales in anticipation of higher VAT rates in January 2023.

Industrial and construction output, % y/y



Source: GUS, Santander

Retail sales, change breakdown, % y/y



Source: GUS, Santander

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Consumers are clearly feeling the impact of deteriorating real incomes and this effect will hold in the upcoming quarters. We think that growth rate of retail sales is likely to slide below zero in 1Q2023.

Construction below zero

In December, construction output fell by 0.8% y/y. The market expected to see +2.6% y/y and we forecasted +1.8%. This is the first decline in sector output since April 2021. However, the data cleansed of seasonal effects showed that output still grew y/y (by 6.1%) at a rate close to the average for the last six months (6.0%), although a 3.7% m/m decline took place in December.

Construction output growth stayed in October and November close to 4% y/y. Its near 5pp slowdown in December was caused by specialised works (down 1.7% y/y after November's 8.6% increase) and civil engineering (slowing to 1.4% y/y from 6.9%). Construction of buildings showed, as in November, a decline in output close to 4% y/y.

In the case of the construction sector, the economic surveys do not catch the improvement in sentiment seen in the industry and the situation in the housing market will, in our view, be an important obstacle to growth, holding construction output y/y change below zero on average in 2023. We also have doubts about the extent to which investment plans will be implemented by the public sector this year.

Housing market on the brake

December saw a further weakening of housing market situation. While the number of finished flats rose by 1.4% y/y, the number of building permits tumbled by 39.6% y/y and the number of house starts even by 43.3% y/y. The latter figure printed 9.8k and was below 10k for the first time since January 2016. In entire 2022 200k houses were started in total – the lowest number since 2016.

Our estimate of running projects declined for the sixth time in a row, it is markedly lower than in 2017-2019 and is currently entering levels last seen during the strongest lockdowns in 2020. Developers are reducing their building activity in response to massive reduction in demand and we think that such a situation will hold in the upcoming quarters.

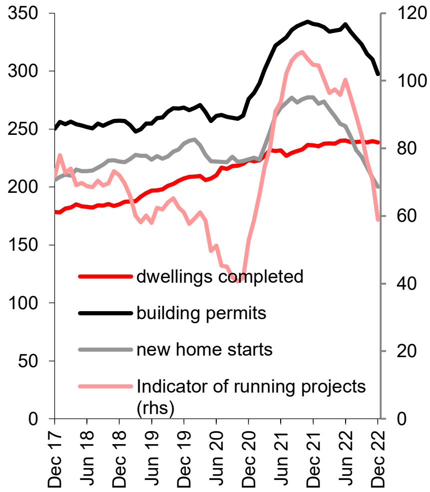
PPI going down, but slower than expected

PPI inflation reached 20.4% y/y in December vs market consensus 19.4% and our forecast 19.0% y/y, down from 21.1% y/y (revised up) in November. Our estimate of core PPI (ex mining, coke and oil refining) declined to 18.8% y/y from 19.9% y/y.

Producer prices increased 0.5% m/m, boosted mainly by 6.6% m/m surge in prices in energy production and 0.6% m/m rise in mining prices. Prices in manufacturing went down by 0.5% m/m, slightly less than we anticipated. Prices in energy production were also revised substantially up (by c.5pp) for November, while at the same time the output growth for this sector has been lowered in a similar scale, which seems to confirm our earlier hypothesis that the statistical office has some problems with distinguishing between nominal and real growth in this industry in periods of great price volatility.

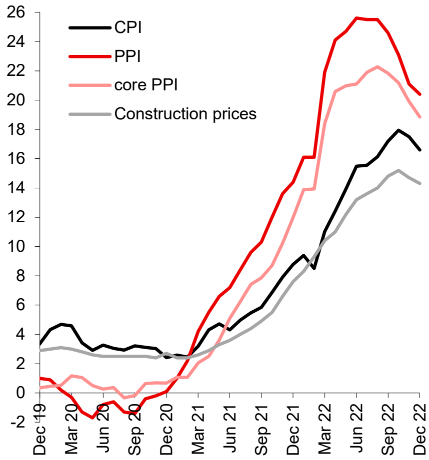
Hopes for a rapid PPI disinflation driven by decreasing gas and fuel prices have failed to materialise so far, as producer prices proved more sticky than expected at the end of 2022, despite lower than anticipated economic activity in December. We think that the PPI growth will keep decelerating in the coming months, yet the data seem to support our view that the pace of disinflation in 2023 may be slower than the market is anticipating.

Housing market indicators, 12m sums, thousands



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, Santander

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