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Economic Comment

Retail sales growth below zero

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Retail sales slowed in January to -0.3% y/y from +0.2% y/y in December and were below forecasts. Puzzling weakness in sales of non-durable goods was the main culprit behind the deterioration in the headline figure. The private consumption outlook for 1H23 remains negative. In contrast, construction output, contrary to expectations, did not fall but rebounded by 2.4% y/y after printing -0.8% y/y in December. However, we expect that the upcoming readings, as well as the average 2023 growth to be negative. In January, the housing market continued the deceleration outlined in the previous months.

Retail sales surprised to the downside

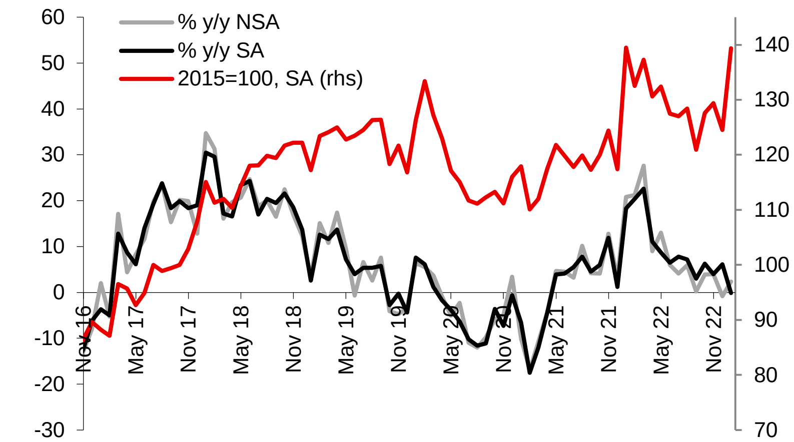
Retail sales slowed to -0.3% y/y in January from +0.2% y/y in December as were below forecasts (us: 1.2% y/y, market: 1.1% y/y).

Sales of durable goods fell by c0.1% y/y after declining by 7.3% y/y in December, while sales of non-durable goods slowed to zero after rising by 1.9% y/y in the previous month. Slowdown versus December was thus generated mostly by non-durables, such as food (-1.7% y/y vs 1.9% y/y in December), sales in non-specialised shops (7.9% y/y vs 11.8% y/y in December), and fuels (-0.3% y/y vs +0.2% y/y in December). On the other hand, sales of durable goods fared quite well, with cars improving to -1.7% y/y from -2.8% y/y and furniture / household appliances to 1.4% y/y from -10.4% y/y.

While fuels slowed probably thanks to a milder weather in January vs December (3.5°C vs 1.5°C degrees on average, respectively), slower sales of first-need goods are a bit puzzling, and we think it may be attributed to a temporary outflow of refugees from Ukraine, who could have chosen to spend Christmas back in their home country.

That having said, prospects for private consumption in 1H23 remain negative, given still negative real wage growth. Some breather for consumers will be delivered by March lavish indexation of pensions (+14.8%) and by decline in inflation starting in 2Q23.

Construction production in Poland

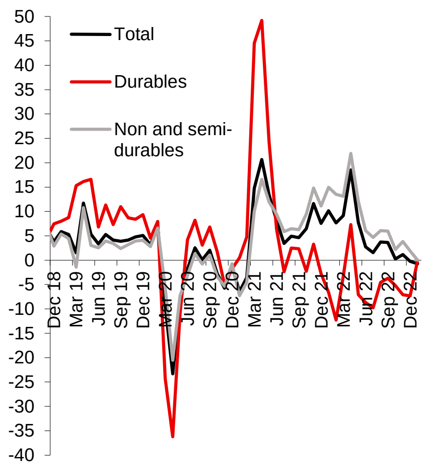


Source: GUS, Santander

Construction sector avoided output decline

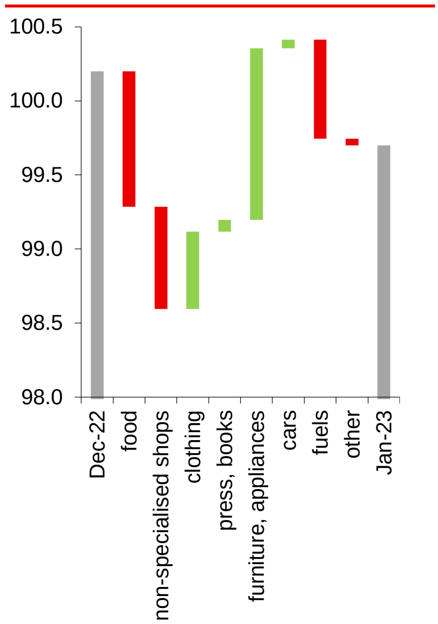
Polish construction output rose in January by 2.4% y/y. Market consensus and us expected a drop (-5.4% y/y and -1.9%, respectively). The rebound from -0.8% y/y from December was thanks to civil engineering output (+15.0% y/y, up from 1.4% y/y) and specialised works (+7.5% y/y, following -1.7% y/y). Output growth in construction of buildings remained negative in y/y terms for the third month running, sliding to -10.7% y/y from -3.7%. In seasonally adjusted terms, the January construction output was 0.1% lower than a year

Retail sales, % y/y



Source: GUS, Santander

Retail sales, change breakdown, corresponding period of the previous year = 100



Source: GUS, Santander

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earlier, sinking from December's 6.1% y/y, which makes it the first negative reading in almost two years.

Bear in mind that there is a strong seasonal pattern in the sector's activity: January and February are the months of the lowest level of construction output during the year – it is usually some 2-2.5x smaller than in December. This means that the positive surprise in today's data is of relatively low value when it comes to GDP contribution.

We expect construction production to decline y/y in the coming months and its average 2023 growth might be slightly negative as well.

Continued deceleration in housing

The deceleration seen in previous months continued in the housing market in January: only 15.2k building permits were issued (-32% y/y) and the number of construction starts amounted to 9.4k (-20%), marking the lowest activity in 6-7 years. The number of dwellings completed was actually quite high for January (18.2k) and 9% higher than a year ago, but this is still a delayed effect of the construction boom of the preceding months.

A gradual decline in the number of housing completions is to be expected later in the year. Our estimate of the rate of running projects has more than halved over the year and is likely to decline further. The decline in the supply of new dwellings will limit the potential for property prices to fall, even with weakened demand. In the fourth quarter, housing prices were roughly stable and we are expecting this tendency to hold, although minor declines cannot be ruled out.

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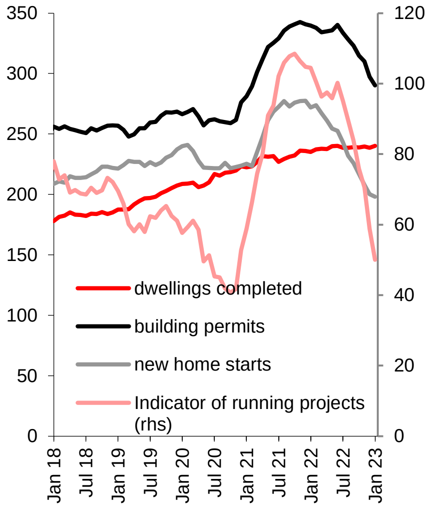
Housing market indicators, thousands, 12m sums



Source: GUS, Santander