

21 March 2023

## Economic Comment

### Troubled consumption and rise in construction

**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 slumped by 5% y/y in February, while we expected -1.2% y/y and market consensus was at -1.5%. Even though retail sales data are markedly weaker than we had expected, they are generally in line with our scenario that the trough of economic cycle was set in 1Q23. We hope that the following quarters will show some improvement in retail sales and in private consumption. As real household incomes will stay under pressure, we think this rebound will not be very strong, though. Construction output was up 6.6% y/y in February and for the second month running it was much stronger than expected, despite a further slowdown in housing market. February data support our forecast of a GDP decline in y/y terms in 1Q23.

#### Deeper decline in retail sales

Retail sales slumped by 5% y/y in constant prices in February, while we expected -1.2% y/y and market consensus was at -1.5%. In seasonally adjusted terms, sales fell by 4.1% y/y and 4.1% m/m.

Sales were weak across the board with an exemption of two categories: cars, which seem to be benefitting from improving supply chain situation (+7.5% y/y vs -1.7% y/y in January – the first positive annual reading since August 2021) and other sales in non-specialised shops, i.e. in supermarkets (13.3% y/y vs 8.8% y/y in January).

Sales of furniture and household appliances suffered most, as it fell by 10.3% y/y vs +1.4% y/y in January. We attribute this weak performance to the housing market downturn. Food sales were weak at -4.6% y/y vs -1.7% y/y in January. Quite good results of sales in supermarkets may be a sign that households are choosing bigger shops in search for cheaper products, at the expense of smaller shops. Fuel sales was by 26.2% y/y lower than one year ago, but this comes as no surprise, given that the war started in February 2022 and caused a jump in sales at petrol stations.

Even though retail sales data are markedly weaker than we had expected, they are generally in line with our scenario that the trough of economic cycle was set in 1Q23. We hope that the following quarters will show some improvement in retail sales and in private consumption. As real household incomes will stay under pressure, we think this rebound will not be very strong, though.

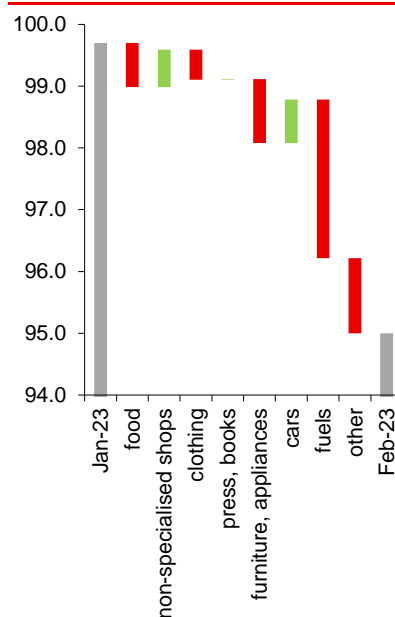
#### Construction output much above forecasts, just like in January

Polish construction output was up 6.6% y/y in February. It was much stronger than expected (market: +1.0% y/y, us: +0.7% y/y), just like in January (back then the market expected -5.4% y/y but saw +2.4% y/y). In seasonally adjusted terms construction output was up by 6.1% y/y (the strongest in 6 months) and 0.8% m/m.

The further acceleration in output after 2.4% y/y growth in January and -0.9% y/y in December was caused by a smaller decline in construction of buildings (-2.8% y/y in February vs. -10.7% y/y in January) and civil engineering shooting to 21.5% y/y from 15.0% y/y. Just like in January, construction production qualified as investment works (+8.5% y/y) rose faster than maintenance and repair works (+4.1% y/y), while for the better part of the last two years the opposite was true.

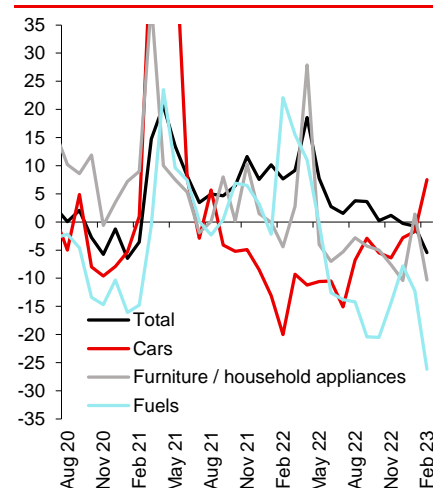
Weather conditions were quite favourable for construction output, similar to January. Also, generally the level of construction output in the first two months of the year is relatively low, which means that relatively small swings in activity may cause large moves in y/y growth. Business surveys suggest that the construction sector is not observing any improvement on the demand side yet while still facing labour and material shortages. Despite the positive surprise in February, we prefer to wait for the next reading before any forecast upgrades for construction output path.

Breakdown of change in retail sales annual growth rate, corresponding period of the previous year = 100



Source: GUS, Santander

Retail sales and selected categories, % y/y



Source: GUS, Santander

#### Economic Analysis Department:

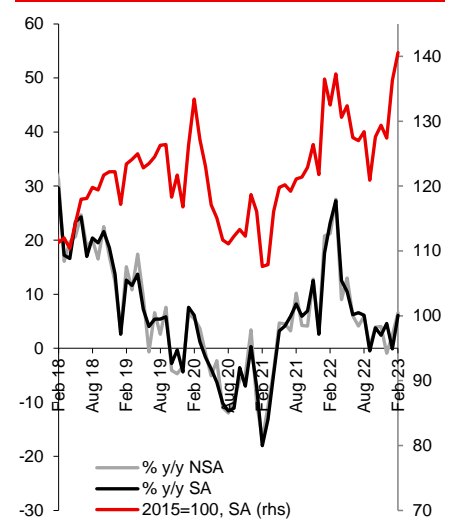
al. Jana Pawła II 17, 00-854 Warszawa  
 email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)  
 website: [santander.pl/en/economic-analysis](https://santander.pl/en/economic-analysis)  
**Piotr Bielski** +48 691 393 119  
**Jarosław Kosaty** +48 887 842 480  
**Marcin Luziński** +48 510 027 662  
**Grzegorz Ogonek** +48 609 224 857

### Housing market still in a slump

The quite good performance of total construction is not confirmed by the data from the housing market, which remains in a deep slump. In February, housing completions went down 13.2% y/y, building permits were down by 36% y/y and house starts were down 39.4% y/y. Our index of market activity will soon break through the local low of October 2020.

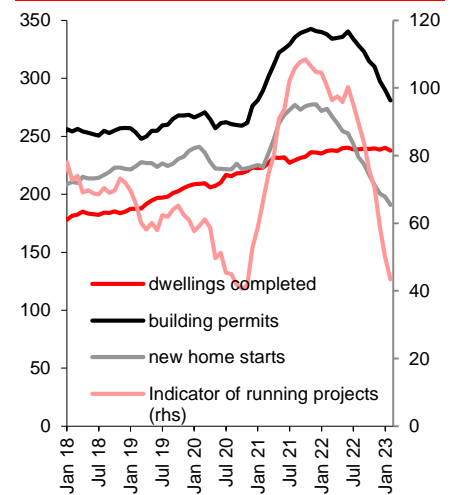
However, there are already some positive signals for the housing demand: a slight decline in market interest rates coupled with high nominal wage growth and stabilisation or decline in property prices have increased the financial availability of housing, the KNF (financial supervision authority) has also allowed some loosening of credit policy, and the number of housing loan applications has even started to rise. Going forward, the revival of demand will translate into higher supply, but it should be borne in mind that the market has a high inertia, and the strength of the demand rebound does not seem strong either, so far.

Construction output in Poland



Source: GUS, Santander

Housing market statistics, 12m sum, in thousand dwellings



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.*