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Economic Comment

Consumers and builders had a busy August

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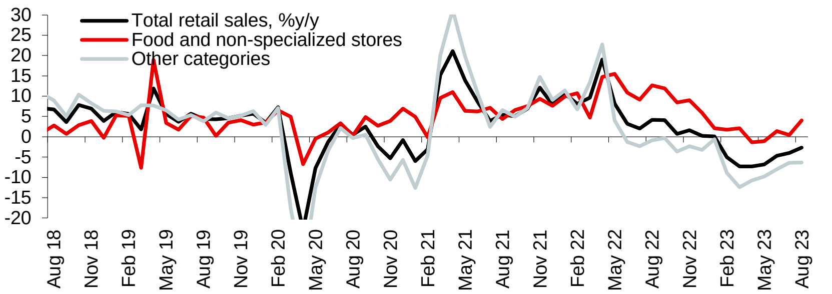
In August, both real retail sales and construction output improved their annual growth rates, although in both cases the market only expected the previous pace to be maintained and we even considered some weakening vs. July. Retail sales showed -2.7% y/y (previously -4.0%), with sales in non-specialised shops performing particularly well. Seasonally adjusted data showed the third consecutive month of rebound, this time by 1.3% m/m. Construction output accelerated to 3.5% y/y from 1.1% and showed the first m/m rebound in seasonally adjusted data, by 2.0%, after five months of declines. Housing starts also improved in August and agricultural commodity prices fell by 3.2% m/m and 18.7% y/y. The data allow us to expect that the economy's recovery from the trough has begun already in 3Q.

Retail sales rebound is gradually gaining momentum

Real retail sales improved to -2.7% y/y in August from -4.0% y/y in July, above expectations (we: -4.5% y/y, market: -4.0% y/y). In seasonally adjusted terms, real sales rose by 1.3% m/m, just like in July and this is already its third consecutive month of recovery.

Good performance was recorded in food (-2.1% y/y vs -4.2% y/y in July), fuels (-3.5% y/y vs. -5.5% y/y) and, in particular, in the category we assume is covering retail chain stores: sales in non-specialised shops (14.9% y/y vs 8.9% y/y according to our estimates). The latter category showed the largest August m/m rise in years, at 8%. Cars (+3.4% y/y after +3.8% y/y), household appliances (-10.6% y/y vs -11.6% y/y), and books (-14.3% y/y vs -13.6% y/y) behaved better than we had expected. Pharmaceuticals were below our expectations (-2.9% y/y vs -0.7% y/y in July) and textiles remained stable (-4.9% y/y). All categories, excluding cars, experienced positive m/m real growth.

Retail sales, selected categories, constant prices, %y/y



Source: GUS, Santander

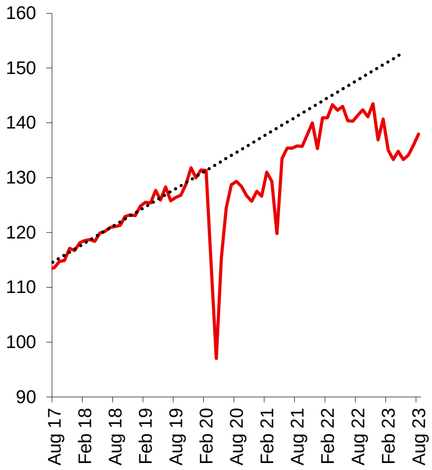
Overall, the data suggest that revival in retail sales may be steadily gaining momentum. In our view, the improvement will continue in the coming months, supported by growing consumer optimism, declining inflation and stable labour market situation.

Construction output unexpectedly increased the pace of growth

In August, construction output rose by 3.5% y/y, accelerating from 1.1% y/y in July. The market assumed that the previous pace will be kept, while we expected to see a small y/y decline. This is the largest positive surprise since February (in spring and summer the data were mostly below consensus). In seasonally adjusted terms, construction grew by 3.5% y/y, compared to 2.0% y/y in July and 1.5% y/y 1H23 average. The s.a. m/m rebound of 2.0% comes after five months of declines, worth 4.7% in total, so the sector has not recovered fully, but managed to send a strong signal in August.

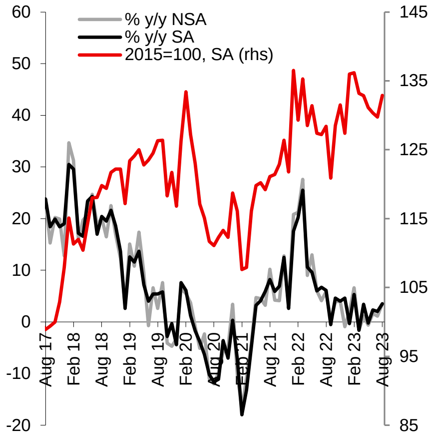
Civil engineering continued to be the backbone of construction output, repeating the 11.8% y/y rise from July. Construction of buildings was down 5% y/y but it still makes it the best

Index of seasonally adjusted real retail sales



Source: GUS, Santander

Construction production in Poland



Source: GUS, Santander

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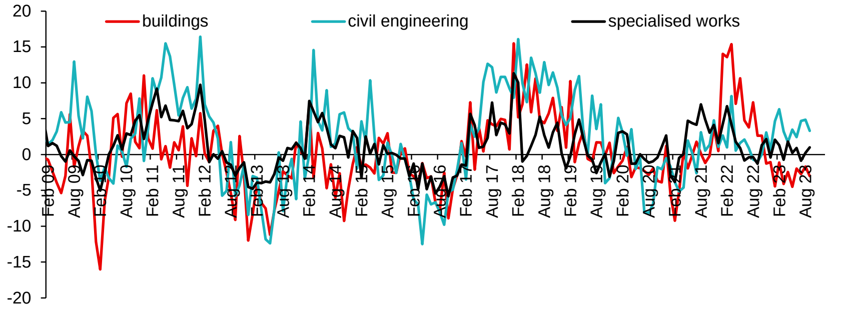
print since February. Specialised works saw output growth of 0.9% y/y. GUS showed also that for another month the output growth is driven by investment-related works (+13.7% y/y), while repair and maintenance works keep dragging it down (-10.4% y/y).

Construction output, main components, %y/y



Source: GUS, Santander

The mood in the construction sector is gradually improving this year, including the assessment of the scale of current activity. The availability of materials and equipment is also improving, albeit slowly (the share of firms reporting the shortage of these as a barrier to business development was in August at its lowest in two years). We expect the construction sector to show better production dynamics than the industry in the following months. We expect the construction sector to deliver output growth of around 1% on average this year.

Slight improvement in the number of new house starts

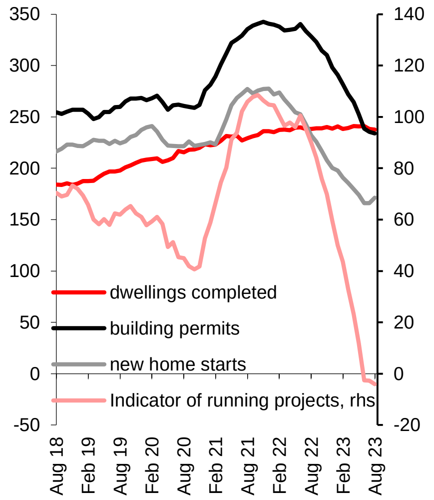
In August, 18.3k dwellings were completed, 2% less than a year ago. Building permits were issued for 20k dwellings (-7.5% y/y) and construction started on 18k dwellings (+39.4% y/y). The number of house starts was higher in annual terms for the first time since February 2022. It was also higher than in previous months, as the May-July period saw an average of 16.2k construction starts. While this may suggest some awakening in the market, it is worth remembering that in the first half of 2022, this gauge averaged 20k per month. August result still fares rather poorly against this backdrop. The running project indicator continued to decline (to -4.0 pts from -2.7 pts, the lowest since 2014), and so did the number of dwellings under construction, to 807.9k from 808.5k.

In our view, a recovery in the housing market is to be expected due to a marked improvement in mortgage demand, but it is nevertheless difficult to announce a change in trend on the basis of a single observation, especially in view of the still rather weak numbers on the number of new permits. Still, it will probably take a while before we can see some robust rebound in the supply, and until then the higher demand will generate upward pressure on housing prices.

Agricultural commodity prices further down

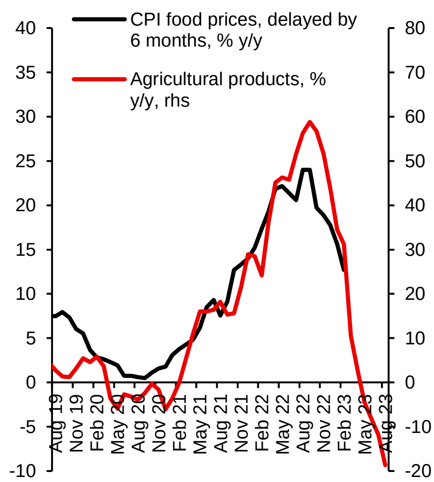
In August, agricultural commodity prices fell by 3.2% m/m and 18.7% y/y. On a monthly basis, the prices of potatoes and pigs fell most sharply. On the other hand, barley and cattle prices increased significantly. We expect that falling agricultural prices will translate into declining food price dynamics in Poland. This downward trend will be somewhat hampered by the effects of drought, which, in our opinion, will add about 0.5 percentage points to the food price growth, mainly due to the reduced supply of fruit. In our opinion, at the end of this year, food prices will decelerate to 6% y/y.

Housing market tendencies, 12m sums



Source: GUS, Santander

Agricultural prices vs CPI food prices, % y/y



Source: GUS, Santander

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