CEE Economics

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Economic Comment

Hard data and confidence keep going up

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Retail sales jumped to 2.8% y/y in October from -0.3% y/y in September, beating expectations for the second consecutive month. The growth was largely based on a temporary improvement in fuels and clothing. Construction output grew by 9.8% y/y in October, more than 1pp below market expectations. However, its 1.1% m/m decline is small against the backdrop of a rebound in the previous two months totalling close to 7%. Data from the housing market indicate that the supply side is steadily adjusting further in response to increased demand. Consumer sentiment improved for the 13th consecutive month in November, particularly in the 'major purchases' part, and most sectoral sentiment indicators pointed to improved business conditions. In wholesale food prices, stabilisation showed up in place of rapid m/m declines.

Retail sales boosted by fuels and clothing

Retail sales climbed by 2.8% y/y in October vs -0.3% y/y in September, surprising strongly for the second time in a row and beating our forecasts and the consensus (0.8% y/y 1.3% y/y, respectively). As we were suggesting in our previous comment, the improvement was mostly driven by a strong acceleration in fuels, boosted by low prices at the pump stations (+16.7% y/y in October vs 7.5% y/y in September) and by a spike in clothing sales (-1.9% y/y vs -16.3% y/y in September), after warm weather in September postponed the launch of autumn collection until October. Sales of durables improved to -0.8% y/y from -2.6% y/y, and of non-durables to 3.7% y/y from 0.3% y/y.

In seasonally-adjusted terms sales advanced by 2.1% m/m and we estimated that almost 2.0 percentage points out of this growth were secured by fuels and clothing (1.1p and 0.7p, respectively). In annual terms, these two categories added 2.7 percentage to annual growth rate more than in September.

The remaining categories show a slight upward trend, with car sales, food and other sales in non-specialised shops slightly weaker on a monthly basis, but this came after a strong September for the first two categories. Sales of furniture and household goods improved to -0.9% y/y from -2.2% y/y. And we think that the recovery of the housing market will be supportive for this category in the months to come.

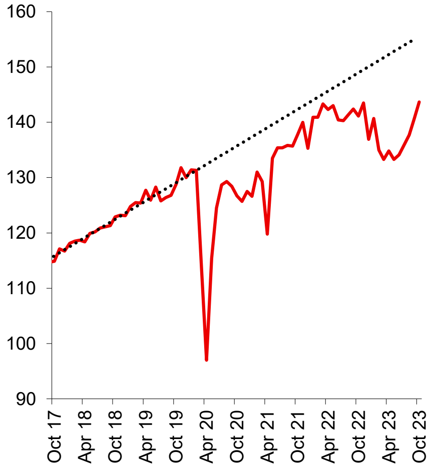
While the October data generally point to a further improvement in consumer demand, it was largely driven by one-off factors that are likely to disappear or to be reversed (especially in case of fuels) in November, when annual growth rate of retail sales in likely to go down, in our view.

Construction sector showed another solid y/y growth, although smaller than expectations

Construction output came at +9.8% y/y in October, below market consensus (11.0%) and our estimate (12.0%). This means some slowdown vs. September's 11.5% y/y rise. After two strong months, with s.a. m/m growth of 3.0% (August) and 3.7% (September), there was some decline in October (-1.1%), which in our view does not undermine the recovery the sector is showing.

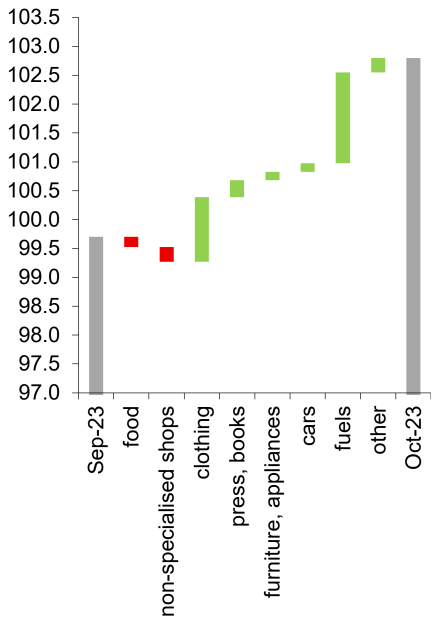
Construction activity was still focused on investment projects (+35.8% y/y) rather than repair and maintenance works (-25.3% y/y). Civil engineering (covering public infrastructure) remained the strongest contributor to overall construction growth rising 17.6% y/y (vs. 17.9% in September). Construction of buildings (+1.1% y/y) and specialised works (+7.1% y/y) also contributed a bit less than in September. It was the second month in a row that all three components of construction output were growing y/y – the last time it happened was 1.5 years ago. We expect y/y construction output growth to moderate a bit in the next few months and in 2024 it may be around 5% on average.

Retail sales, sa index (2015=100) vs pre-covid trend



Source: GUS, Santander

Retail sales, breakdown of change in annual growth rates, corresponding period of the previous year = 100



Source: GUS, Santander

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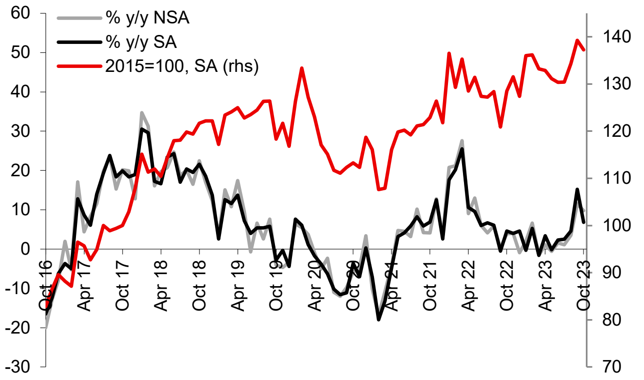
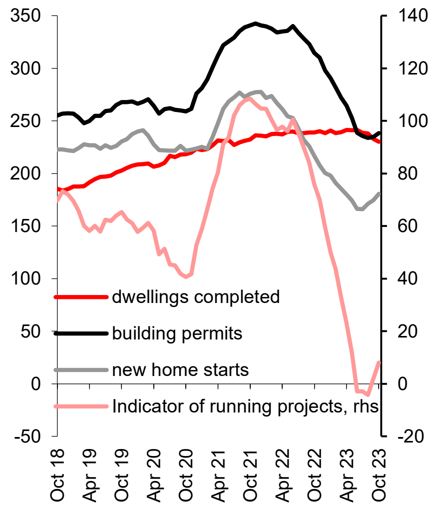
Construction production in Poland



Source: GUS, Santander

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



Source: GUS, Santander

Further supply adjustment on the housing market

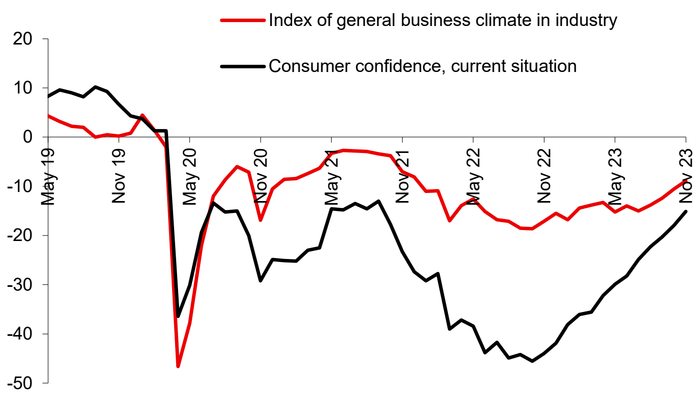
In October, 19.5k dwellings were completed, which was 11.3% less than a year ago and 19.7% more than in September, while the number of granted building permits continued to rise, reaching 24.1k, 17.0% more than in October 2022 and the most since June 2022. Further growth was also recorded in new building starts, which increased 45,9% y/y to 19.7k (which was also the most since June 2022). The number of dwellings under construction is still lower than a year ago, but its yearly growth rate has been steadily accelerating since June 2023, reaching -5.8% y/y in October after -6.7% y/y in September, which was also reflected in our proxy indicator of running housing construction projects which rose sharply to 8.0 pts from 2.0 a month earlier.

Overall, the newest data suggest that the adjustment of the supply side in the housing market (in response to the increased demand observed in the credit data) is steadily taking place, although it may still take some time until we see construction levels from the previous years. This will likely be reflected in house prices rising further in the coming months.

Improving consumer confidence should lead to higher consumption

Consumer confidence improved in November, for the 13th month running. The current assessment index rose to -15.1 pts from -17.9 pts, to the strongest level since Sep'21 and already 1.1 pts above the long-term average. The expectations index rose to -7.4 pts from -8.1 pts, the highest level since Mar'20 and 11.4 pts above the long-term average. The largest improvement was seen in attitude towards major purchases, in the ability to save money and in assessment of current economic situation. A new phenomenon is some rebound of inflation expectations while CPI was still seen trending down in recent prints. Consumers were also a bit less relaxed about job security in November, but the index is still much above its 1H23 average. We continue to expect the growing consumer optimism to translate to private consumption rebound, which should be the backbone of 2024 GDP growth.

Consumer and industry sector sentiment



Source: GUS, Santander

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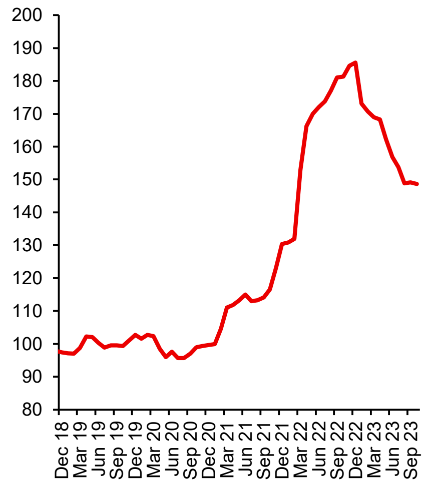
Business sentiment is going up according to companies surveyed by GUS

Sectoral business sentiment were mostly on the rise in November. Wholesale trade stood out positively in terms of m/m index change, while construction and industry continued to improve at a similar pace to the previous months. Retail trade showed the second significant rise in a row after three months of hesitation where to go from an already decent level (it has remained above the long-term average since June). Sentiment worsened in transport and hotels and restaurants, but this occurred after three months of improvement. Industry and retail trade were the sectors signalling the largest m/m improvement of all when it comes to current business activity. The results of the November GUS survey of business sentiment support our belief there is already a rebound in the economy

Agricultural prices stabilise

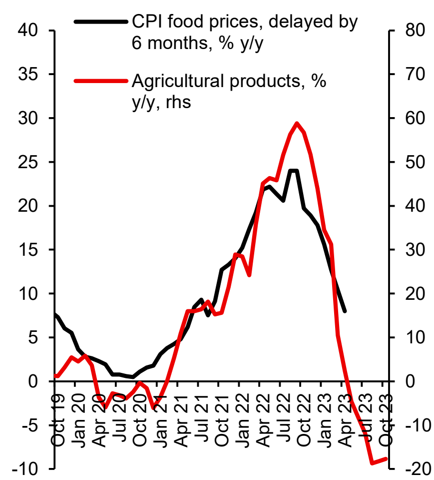
Prices of agricultural products fell by 0.3% m/m and by 17.7% y/y. Amongst others, maize, potatoes, pigs and poultry were somewhat cheaper than in September. In contrast, the prices of milk, cattle, rye and oats increased. For the second consecutive month, the prices of agricultural products are stabilising, following rapid falls in the first three quarters of this year. In our opinion, this will translate into a halt in the downward trend of retail food prices.

Agricultural prices, index, Dec 2017 = 100



Source: GUS, Santander

Agricultural prices vs CPI food prices, % y/y



Source: GUS, Santander