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Economic Comment

Retail sales and construction below expectations

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Real retail sales increased 2.6% y/y in August, a bit below our forecast (2.9% y/y) and the market consensus (3.3% y/y). Deceleration of growth affected especially sales of durable goods. However, we still think the outlook of consumption remains positive. Construction output also surprised negatively (-9.6% y/y, below the consensus at -7.1% y/y and our forecast of -5.9% y/y). Reconstruction needs caused by the flood should lead to an improvement in both retail sales and construction output. The latter may also be stimulated by projects financed with EU funds. The data from the housing market showed a decline in completions, but also an increase in new projects. Prices of agricultural products rebounded by 0.7% m/m.

August turned out to be surprisingly weak when it comes to economic activity, though not as weak as to already make us consider a revision of our economic growth forecasts.

Retail sales slightly weaker than forecast

Retail sales surprised slightly downwards in August and increased by 2.6% y/y compared to our forecast of 2.9% y/y and the market consensus at 3.3% y/y. Seasonally adjusted sales increased by 1.9% m/m after falling by 2.7% m/m in July.

The slowdown from 4.4% y/y recorded in July was mainly due to weaker sales of durable goods, which slowed down to 4.0% y/y from 11.8% y/y. Lower growth was visible especially in car sales (15.7% y/y vs. 30.1% y/y in July), with a less pronounced slowdown in household appliances (-5.3% y/y vs. -3.4% y/y in July). We associate the strong slowdown in the durable goods category with the negative effect of working days. Sales of non-durable goods also decelerated slightly, to 1.6% y/y from 2.1% y/y in July, despite an improvement in food sales (-0.4% y/y after -2.7% y/y) and in non-specialized stores (-2.6% y/y after -4.3% y/y). However, all other categories advanced at a slower pace and this dragged the whole category lower.

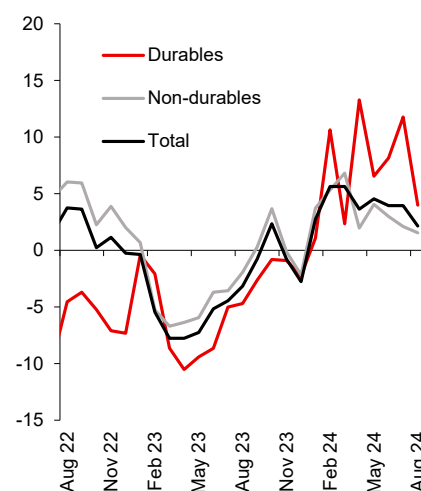
Despite a slightly weaker reading in August, we remain moderately optimistic. Real household income growth remains strong and consumer confidence remains elevated, so we believe the outlook for consumption and retail sales stays upbeat. September's retail sales will be impacted by flooding, although we don't think the effect will be strong, primarily due to its limited range. In the coming months, some positive effect will appear in the data related to the need to replace damaged durable equipment.

Decline in construction production

Construction output fell in August by 9.6% y/y (the worst print since March), failing to reach the level expected by the market (-7.1%) and our forecast (-5.9%). The seasonally adjusted production was down 7.5% y/y, so some of the weakness of the headline reading can be attributed to negative calendar effects. It does not change the impression that it was a bad month for the construction sector activity, given that the seasonally adjusted m/m growth of output was -0.5%. The previous release suggested that the negative trend in construction present since early 2023 could be coming to an end, but the August data do not allow for strong conclusions in this respect.

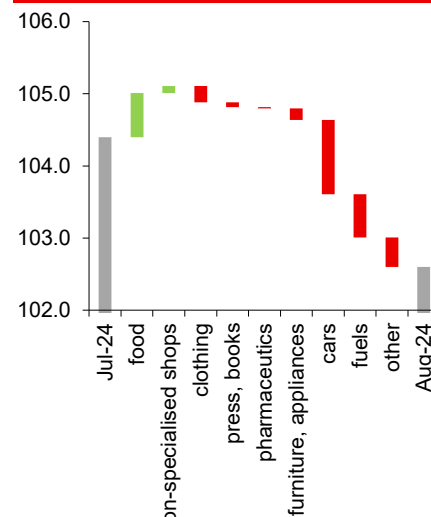
We generally think that the business climate in construction should soon start to improve as the expected growing utilisation of EU funds and public infrastructure projects should offer stimulus for a rebound. In fact, the September business sentiment indicator covering construction rose significantly after a pretty much trendless February-August period. Another reason for better construction performance is the reconstruction needs due to the ongoing flood in the south of the country.

Retail sales, main categories, % y/y



Source: GUS, Santander

Retail sales – breakdown of change in annual growth rate, % y/y



Source: GUS, Santander

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The number of dwellings in construction slowly increases

August data from the housing market have a few seemingly weak points, but - after a closer inspection - confirm that the recovery of the supply side is going well.

On one hand, only 14.6k dwellings were completed in August, not only the fewest so far this year, but also 18% fewer than in August last year. Moreover, the growth rate of started construction projects declined from 22.8% in July to 10.8% y/y in August and reached the lowest level since July 2023.

On the other hand, the number of dwellings in construction rose from 829.1k in July to 834.4k in August and their dynamics increased from 2.6% y/y to 3.2% y/y, which is the highest rate of growth since March 2022. Additionally, although the growth rate of issued building permits declined slightly, it remained high, at 27.9% y/y. Finally, our proxy measure of running construction projects rose for the 12th consecutive time, from 72.5 pts to 81.3 pts.

Overall, the newest data show that the recovery of the housing market's supply side still gradually continues.

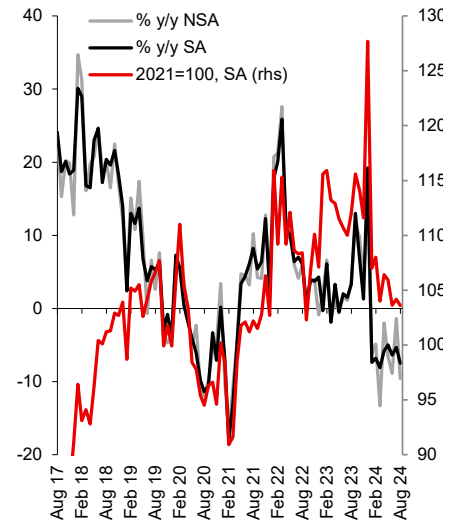
Procurement prices of agricultural products should soon start to grow in y/y terms

In August, the prices of agricultural products rebounded by 0.7% m/m, which raised their annual growth rate from -5.5% to -2.5%. Such behavior of procurement prices means that upward pressure on food prices taken into account in the calculation of CPI inflation should be maintained. The accelerated vegetation this year caused a large drop in potato prices already in August, by 31.5% m/m (in August 2023 it was -14.0% m/m). Rye became cheaper by 5.8% and pigs by 3.8%. The largest price increases were recorded for barley (6.5% m/m) and cow's milk (2.9% m/m).

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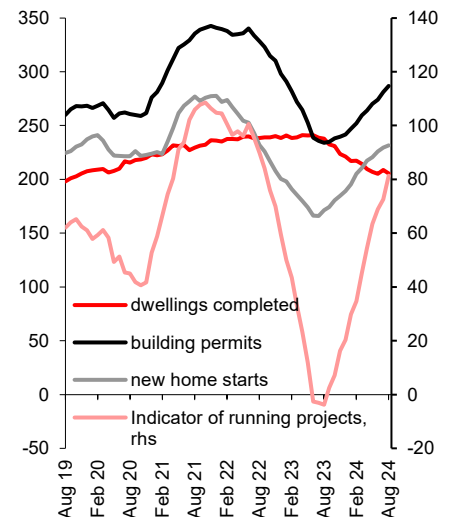
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Construction output in Poland



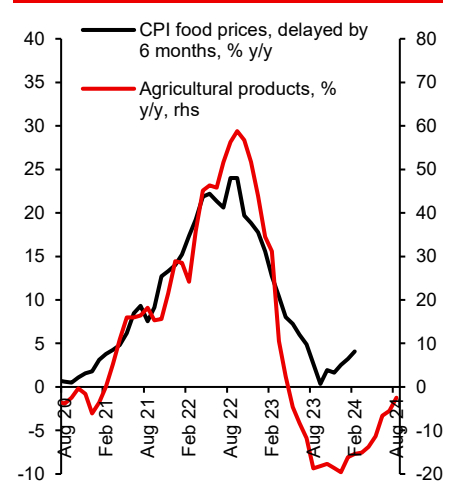
Source: GUS, Santander

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



Source: GUS, Santander

Prices of agricultural products in Poland vs CPI food prices



Source: GUS, Santander