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Economic Comment

Small rise in sales, improved construction

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Retail sales turned out to be quite weak in December, with real growth of 1.9% y/y when the market was hoping to see c.4%. However, durable goods sales remained solid and consumer sentiment improved in January. We continue to believe that in terms of private consumption growth, 2025 will be similar to 2024 with real growth of c.3%. Construction production was a positive surprise, limiting the annual decline to 8% in December. On top of this, in December we had the first increase in dwelling completions in five months. In December, agricultural prices jumped by as much as 4.7% m/m, marking the fifth month of their acceleration - this poses upside risks for food inflation in 2025.

Retail sales rose by less than 2% instead of 4%

After the highly positive November print, retail sales disappointed in December by growing 1.9% y/y in constant prices against expectations at around 4% (3.9% y/y market median, our estimate was 4.3%). The slowdown in real retail sales growth from 3.1% y/y in November occurred despite a highly supportive statistical base effect – in December 2023, retail sales suddenly collapsed by 2.3% y/y. In seasonally adjusted terms, retail sales declined in December 2024 by 1.3% m/m, following a 1.0% m/m rise in November.

The slowdown in annual growth rate of real retail sales was mainly due to poor reading of food sales, -4.3% y/y. If it was not for this one category, the headline growth rate would be almost the same as in November. Cars, fuel, medicine and cosmetics also meaningfully decreased their growth contribution, but this was offset by some acceleration in other sales in non-specialized stores (i.e. retail chains), shoes and apparel, as well as in specialised outlets. Durable goods categories taken together showed a rise of 9.2% y/y, down from 11.8% in November, but it still left the 4Q average growth above 10% y/y. Non-durables were up 0.2% y/y, following 0.8% y/y in November.

The holiday period may not be the perfect time to assess the underlying strength of consumer demand. It seems there might have been some front-loading of Christmas shopping, which would help explain the positive November surprise in the data. The 1H24 recovery in retail sales will make it hard for the coming readings to systematically show y/y increases, despite the ongoing rise of household real incomes. We expect private consumption to show c.3% growth in real terms in 2025, close to the 2024 outcome we expect at 3.0%.

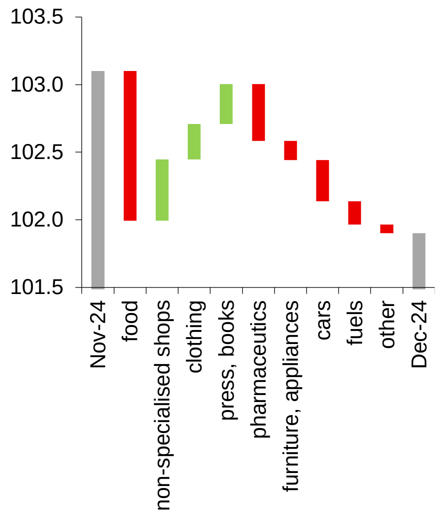
Construction sector reduced the scale of the annual decline

Construction output was the only bright spot in December's economic data set. Production in this sector fell by 8% y/y, which was well above market consensus (-11.6% y/y) and very close to our estimate (-8.7% y/y). Seasonally adjusted construction output picked up 5.8% m/m, showing the second month of revival in construction activity after almost a year of malaise in this sector. The biggest monthly production jump was recorded in companies dealing with civil engineering and specialized works, while construction of buildings was lagging behind. We see it as a signal that the investment cycle related with the EU money inflow was probably gaining pace at the turn of the year.

Number of completed dwellings is growing again

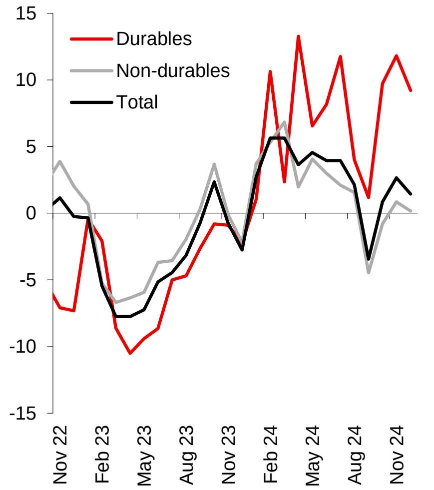
According to the December data from the housing market, 2024 closed with 199.9k completed dwellings, 9.3% fewer than in 2023, in line with our expectations. In December alone, this translates to an increase by 21.2k or 1.8% y/y, marking the first positive annual growth rate in five months.

Breakdown of retail sales growth in constant prices, % y/y



Source: GUS, Santander

Retail sales in main categories, constant prices, % y/y



Source: GUS, Santander

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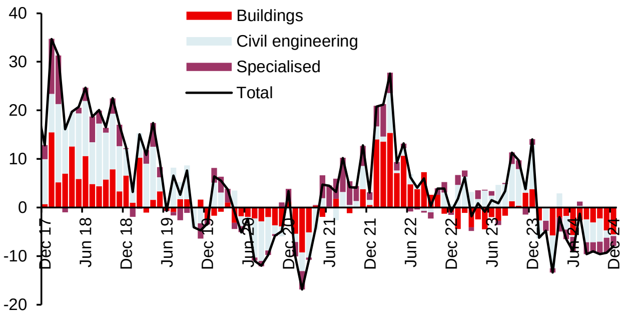
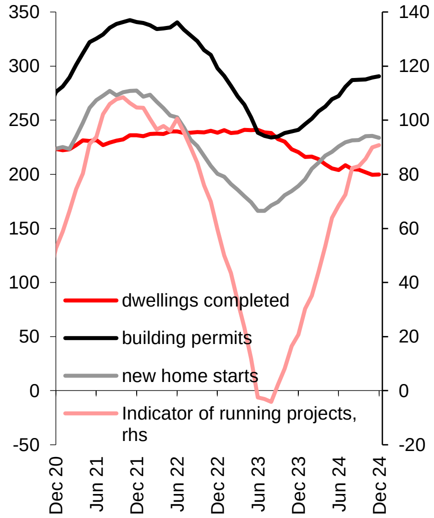
Construction production, % y/y, growth structure



Source: GUS, Santander

Housing market statistics, 12M moving sums, thousands



Source: GUS, Santander

Though the number of completed dwellings was lower in 2024 than in 2023, activity on the supply side of the housing market was visibly greater – there were 20.6% more issued building permits and 23.7% more started construction projects. Moreover, at the end of the year, the number of dwellings in construction was 4.1% higher than in December 2023.

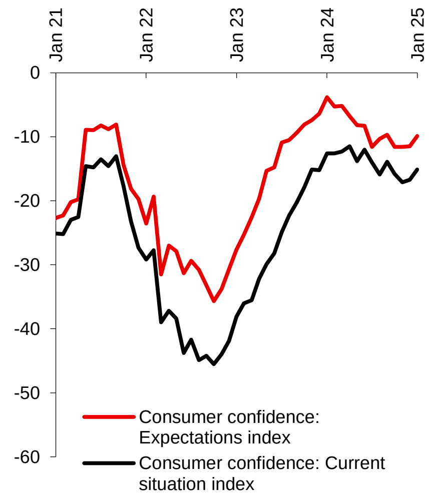
On the other hand, data for the last quarter suggest that the growth in activity is becoming slower. The growth rate of issued budilding permits fell from 24.0% y/y in 2Q and 23.7% y/y in 3Q to 5.0% y/y in 4Q and the growth rate of started construction projectes declined from 32.6% y/y in 2Q and 10.9% y/y in 3Q to 4.2% y/y in 4Q. This, however, does not change our expectations that the number of completed dwellings will be greater in 2025 than it was in 2024.

Consumer confidence improved in January

In January, consumer confidence indicator covering current situation rose by 1.6 pts, to -15.1 pts, the highest level since September last year. It is now 1.0 pts above its long-term average. The aggregate index of consumer expectations also went up by 1.6 pts, to -9.9 pts, the highest since September and beat its long-term average by more than 8 pts.

We are positively surprised by this improvement – we expected to see a further gradual worsening of sentiment among Polish consumers. We are surprised positively to the largest extent by the increase of indicators regarding consumer views about the economy – its current and expected performance – despite the global political and geopolitical uncertainty. What also struck us was the rise in the job security index to the highest level in five months, after the previous months had shown job insecurity building slowly among consumers.

Consumer sentiment indices, pts

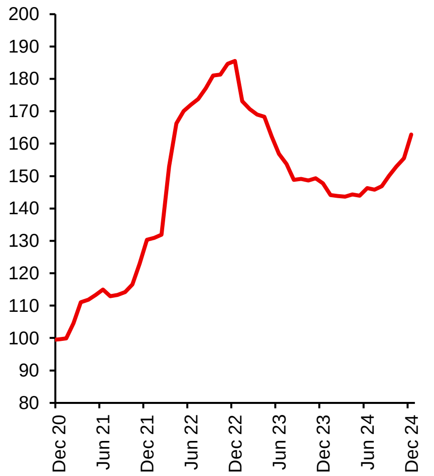


Source: GUS, Santander

Agricultural prices up in December, milk the most expensive in two years

In December, wholesale prices of agricultural products increased by 4.7% m/m and this was the largest monthly change since the first half of 2022. On an annual basis, the price growth accelerated to 9.6% y/y from 3.5% y/y in November. This was the fifth monthly growth in prices in a row. The strongest price increases were recorded in the case of potatoes, corn, milk and rye. A strong increase in wholesale prices is likely to translate into retail prices and, in our view, implies an upward risk for food price forecasts in 2025, which may lift CPI.

Agricultural prices index, Dec-2017=100



Source: GUS, Santander

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