

Article | 22 November 2023

MANUFACTURING, CONSTRUCTION AND RETAIL POLAND

Retail sales and construction point to signs of recovery in Poland

Retail sales showed the first signs of annual growth since January, rising by 2.3% YoY. Construction output also expanded by 9.8% YoY, pointing to a solid start to the fourth quarter for the Polish economy. This recovery should continue on the back of reviving private and public consumption, and in 2024, GDP could grow by around 3%

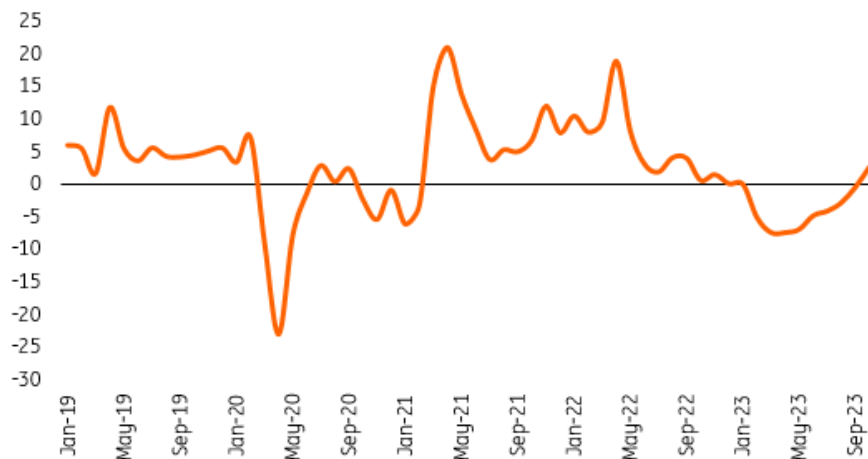


A solid start to the fourth quarter for retail sets the stage for consumption bounce back

Retail sales of goods rose by 2.8% year-on-year in October (versus our expectations of 2.3% and the consensus view of 1.4%) after shrinking by 0.3% YoY a month earlier. This was the first increase in goods sales in real terms since the turn of 2022/23. The seasonally adjusted data showed the fifth consecutive month of sales growth. The highest double-digit increases were recorded in fuel sales (16.7% YoY) and car sales (12.3% YoY). Weakness persisted in sales of durable goods other than auto. Double-digit declines were recorded in the furniture, consumer electronics, and household appliances category (-10.9% YoY) and in the group comprising newspapers, books and other sales in non-specialised shops (-11.1% YoY).

Retail sales turned positive again after months of declines

Retail sales of goods, %YoY



Source: CSO data.

The start of the fourth quarter of this year is encouraging for the retail trade. The recovery of real household disposable income is continuing. In October, real wages in the corporate sector increased by nearly 6% YoY. Consumer sentiment – including the willingness to make major purchases – has been steadily improving since the beginning of the year. We expect the fourth quarter to see a year-on-year increase in household consumption, with a further rebound continuing into 2024.

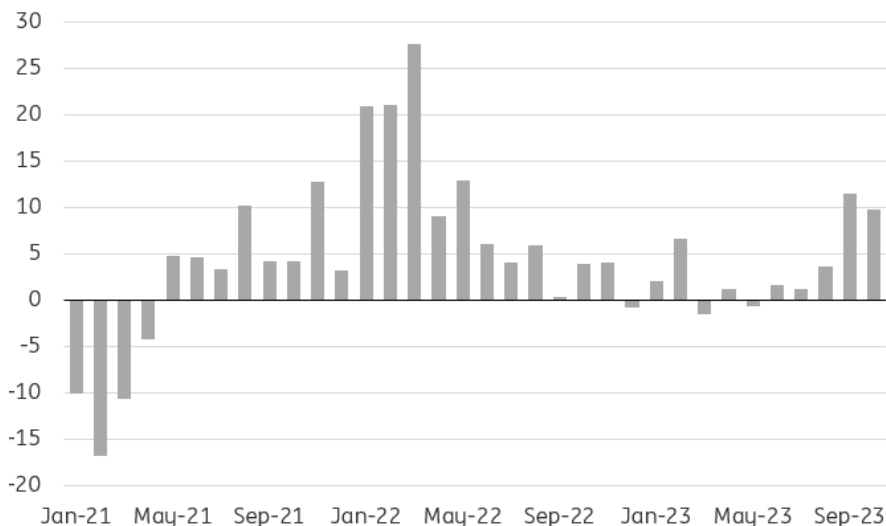
Next year, economic growth should reach 3%, driven mainly by private and public consumption growth. Private consumption would be supported by an increase in real disposable income due to lower inflation, while public consumption would benefit from high valorisation of social benefits (with more than 800 pensions) and planned salary increases in public services and administration.

Construction output growth still close to double-digits

Construction output jumped up by 9.8% YoY in October after 11.5% in September, slightly below the market consensus of 10.5%. The annual growth was supported by a higher number of working days (22 vs. 21 a year earlier) and favourable weather conditions for construction activity (the average air temperature was 10.9°C, 2.1 °C higher than the multi-year average for that month). On a monthly basis, output rose by 2.5% MoM after 11.4% in September, although on a seasonally adjusted basis, it fell by 1.1% MoM.

Almost double-digit growth in construction

Construction output, %YoY



Source: CSO data.

In regards to composition, output in the area of building construction slowed in October (1.1% YoY after 3.9% in September), while civil engineering construction remained strong (+17.6% YoY after +17.9% in September), and specialised works growth slowed slightly (7.1% YoY in October after 10.0% a month earlier).

We associate the continued strong growth in civil engineering construction with public investments co-financed by European funds. This December marks the end of access to funds from the 2014-20 financial perspective, and the end of the budget perspective usually brings an accumulation of spending.

Growth in building construction output was supported by easier access to mortgages, linked to the high popularity of the government's programme subsidising mortgages (launched in July), the fall in lending rates following rate cuts from the National Bank of Poland (by 75bp in September and 25bp in October) and the easing of the regulatory buffer. These factors have boosted borrowers' credit eligibility and underpinned demand for mortgages.

The construction industry is adding its share to the recovery scenario in the Polish economy. In the coming months, we assume a continuation of the improvement in the construction of buildings. The situation in civil engineering will be supported by good prospects for the rapid unlocking of EU funds, including from the Recovery and Resilience Fund, in early 2024. Without this inflow, we would see a decline in the inflow of European funds relative to 2023.

The prospect of an economic rebound accompanied by CPI inflation running well above the target means that the MPC may refrain from further interest rate cuts. Our baseline scenario

assumes that NBP rates will remain unchanged until the end of 2024 (with the main rate still at 5.75%).

Author

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.