# Poland’s retail sales and construction slow in July

Today's reading of high-frequency indicators for July – retail sales and construction production – turned out to be quite disappointing

## Retail sales growth slows in July

Retail sales grew by just 2.0% year-on-year in real terms in July, following an increase of 3.9% in June (after an upward revision of 0.7pp), against a consensus forecast of 2.5%. As in previous months, spending grew rapidly on non-durable goods including food and beverages (5.4% YoY), pharmaceuticals (10.2%) and textiles, clothing, footwear (13.3%), as well as 'other' (10.5%). This can be linked to additional demand from more than two million Ukrainian refugees who continue to live in Poland. There was a strong decline in sales of durable goods: cars, motorbikes and car parts (down 15.1%), and also furniture and white goods (down 5.3%).

The weak retail sales data show the scale of the loss of purchasing power of Poles' incomes and social benefits, whose increases can barely keep up with rising CPI inflation (wages 15.8% YoY, inflation 15.6% YoY in July) and high PPI producer price growth (almost 25% YoY in July). Savings built up during the pandemic are melting away at a rapid pace in real terms, and with the war just over the Eastern border, consumer sentiment is at a record pessimistic level (last week's CSO data show that this applies both to assessments of one's own household prospects and the country's overall economic situation).

These factors are contributing to a weakening in consumption, as also shown by seasonally-adjusted data. Retail sales fell 0.1% month-on-month in July – they had already been losing momentum in previous months – after stronger increases at the beginning of the year.

## Construction in July weaker than expected

In July, construction output rose 4.2% YoY, down from 5.9% in July. This result was once again below expectations (6.6%). While construction of buildings performed relatively strongly (11.7% YoY vs 15.2% a month earlier), categories typically associated with infrastructure investment, namely civil engineering (2.2% YoY) and specialised works (-1.4% YoY), performed poorly.

It appears that real estate developers are trying to accelerate the completion of their investments, fearing further increases in contractor prices and a decline in residential real estate prices. This, combined with a collapse in mortgage demand (down nearly 70% YoY in July) will put pressure on housing prices. Meanwhile, another weak month of categories related to infrastructure investment suggests that, among other things, rising costs and a lack of Recovery Fund access are making it difficult to carry out new projects or complete investments already underway.

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