

Poland: temporary rebound in construction output

Construction output rose 2.4% year-on-year in January, following a 0.8% decline in December. This is significantly better than the consensus of -3.8%, which may be due to the relatively good weather in January. However, the trend remains negative, and construction is likely to be one of the weakest elements of the Polish economy this year



The dynamics of works related to public investment, i.e. of civil engineering (up 15.0% YoY from 1.4% a month earlier) and specialised construction works (up 7.5% after a 1.7% decline in December) were very high and accounted for the increase in construction output in January. It was most likely in these categories that the effects of last month's mild weather became most apparent. We have already seen such effects at the end of last year when the weather was responsible for the high volatility of construction output dynamics. Short and medium-term perspectives remain relatively poor, as Poland is unlikely to utilise the Recovery Fund anytime soon.

The construction of buildings performed very poorly. The decline is in double digits in this category

(10.7% YoY, compared to -5.7% a month earlier) for the first time since March 2021. The number of housing units under construction remains at a very high level, which is probably due to the completion of started projects, while new ones are not being started. Demand for housing has deteriorated strongly (as indicated, for example, by announcements from listed developers), due to the high rise in interest rates, or the general deterioration in household sentiment. This signals a further decline in the construction of buildings, at least in the first half of the year.

Unexpected year-on-year drop in retail sales for the first time in two years

Retail sales in Poland fell 0.3% year-on-year between January 2022 and January 2023, the first real year-on-year decline since February 2021, below our forecast and consensus expectations of a 0.3% YoY increase, following a 0.2% increase in December. Merchandise sales have suffered from real wage erosion due to high inflation with slower wage growth, as confirmed by yesterday's data from the Central Statistical Office of Poland on wages in the corporate sector. Wage growth has remained below inflation for months.

The decline in total sales was driven by double-digit declines in fuel sales (down 12.3% YoY), newspapers and books, and cars and food, among others. The decline in the food, beverages and tobacco products category also marks the end of the positive effect of additional demand from Ukrainian refugees. On the other hand, spending on textiles, apparel, and footwear (15.7% YoY) and pharmaceuticals (4.5%) rose strongly, while furniture/tv/white goods recorded a slight rebound (1.4%).

Today's data is disappointing but is in line with the expected weakening of consumer spending due to significant declines in real incomes.

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