

## Poland: Economy on course for 3% YoY GDP growth in 3Q22.

Retail sales and construction output data surprised to the upside in August, confirming that the economy is slowing. There is no sudden stop, as suggested by some indicators (manufacturing PMI, sales of mortgages). The economy is on course for c.3% YoY growth in 3Q22.



A shopping mall in Warsaw, Poland

### August retail sales above market expectations

Retail sales rose by 4.2% YoY in August (ING and consensus at 3.0%YoY), following an increase of 2.0% YoY in July. The seasonally adjusted data shows that after two months of declines in MoM sales, August saw growth. On a year-on-year basis the largest increases were again reported in necessities (pharmaceuticals, clothing and footwear, food). Durable goods sales continued to limp along, although there were signs of stabilisation in car sales as supply-side bottlenecks eased.

Demand for durable goods has been soft in recent months, something we associate with high uncertainty and weak consumer sentiment. Despite signs of some weakening, however, growth in sales of necessities continues. Demand from refugees from Ukraine remains a support here. In the coming months, price increases may put pressure on purchasing decisions and induce households to be cautious in their spending, especially in view of the risk of increased housing costs (heating,

electricity) in the autumn and winter.

## Residential construction still on the rise but housing starts fall sharply

In August building construction expanded by 25.7% YoY, after rising by 11.7% the month before. Production in this sector has been growing at double digit rates in each month of 2022 so far. However, there was a strong decline in the number of housing construction starts (down by 46.1% YoY in August). Again, industries related to infrastructure investment performed poorly: civil engineering (-1.6% YoY, previously +2.2% YoY) and specialised construction (-1.3% YoY, previously -1.4% YoY).

The structure of the data is consistent with trends seen in previous months. In residential construction, it is likely that projects already started are being completed. Companies are probably trying to fill the demand for housing that still exists. At the same time, the slump in new construction shows their concerns about demand in the future in the face of the large increase in interest rates. The weak performance of industries related to infrastructure investment is most likely still the result of the strong increase in production costs, which makes it difficult to launch new tenders, and the lack of funds from the Recovery Fund.

## GDP to expand by c.3% YoY in 3Q22.

Retail sales data fit a scenario of a gradual economic slowdown with weakening consumption. Growth will be slower in 2H22 than in 1H22, when the lifting of epidemic restrictions allowed previously constrained demand in services to be realised and savings accumulated in the pandemic to be spent. Data from the housing sector indicates deteriorating prospects for upcoming quarters, but construction is still expanding. The biggest hit to 3Q22 annual growth is likely to be observed in the lack of support from the inventory adjustments that boosted economic growth in 1Q22 and 2Q22. The August set of monthly data (industry, trade, construction) fits our forecast for 3Q22 GDP growth of c.3% YoY, implying growth of c.0.6% QoQ S.A.

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