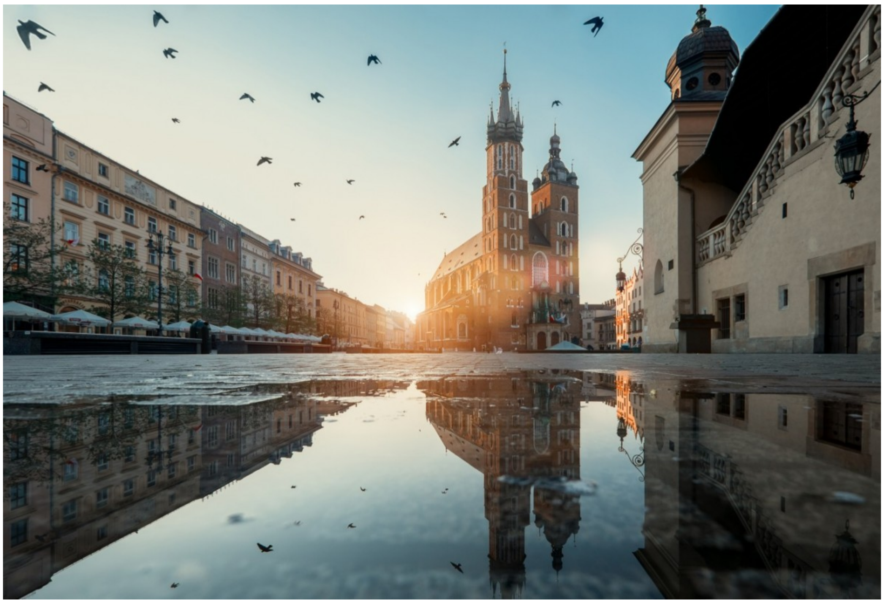
Despite weak Polish retail sales, 3Q20 looks sound

In August, Polish retail sales grew by only 0.5% YoY. which suggests the economy is moving from a strong, V-shaped rebound to a more normal economic cycle



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Retail sales show pent-up demand effect is fading

Polish retail sales for August came in line with our expectations but annual growth was lower than the market consensus and amounted to only 0.5% year-on-year in real terms.

We forecasted 1.1% YoY growth compared to the market consensus of 2.6% YoY and the 3.0% YoY growth seen in July. The lower annual growth was driven by a 5.0% YoY decline in sales of motor vehicles, motorcycles and parts (after the 0.7% YoY growth seen in July). Other components of retail sales were also weaker than last month, which shows that the effect of pent up demand is fading.

The data for August shows that Poles have been gradually returning to traditional shopping channels. In August, internet sales accounted for only 6.1% of total sales compared to 11.9% in April. The month-over-month growth of internet sales was negative for the fourth month consecutively.

The deterioration in retail sales was on the cards given the decline in consumer confidence indicators, as well as the data on card transactions, which suggested a slowdown in spending in August.

Construction and assembly production continues to drop

Construction output in August dropped by 12.1% YoY compared to 10.9% drop in July and the market consensus of 9.5% YoY drop (close to our forecasts).

The construction of buildings and specialised construction activities saw further deterioration, while the decline in civil engineering work stabilised at a high level.

> August production, retail sales and construction output data were slightly lower than short-term forecasts. They show that the economy is moving from a strong, V-shaped rebound to a more normal economic cycle.
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> Nevertheless, GDP for 3Q20 should be better than expected after the lockdown. In our opinion, real GDP in 3Q20 will only be about 2% lower than in the corresponding period last year, compared to the 8.2% YoY decline recorded in Q2.
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> The new outbreak of Covid-19 cases bears downside risk to 4Q20. But given much lower mortality rates than in 2Q20, we assume limited pandemic measures and much slower GDP drop in 4Q20 than in 2Q20. For the full-year, we forecast GDP should contract by 2.9%YoY.

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