Solid Polish retail sales and construction output but we see difficulties ahead

The latest sales figures look good but we predict a 'bizarre' economic slowdown later in the year where a consumption boom is accompanied by high inflation and more rate hikes

A shopping mall in Warsaw, Poland

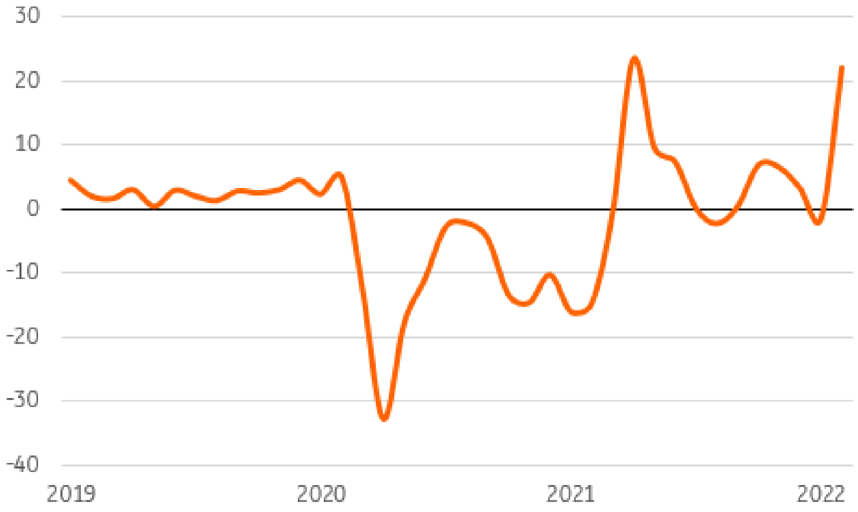
Precautionary spending vs. high reference base in February retail sales

Retail sales in Poland increased by 8.1%YoY in February (ING: 10.2%YoY; consensus: 8.3%YoY). The reading was boosted by precautionary spending after Russia's invasion of Ukraine. The impact of a high reference base is proving to be more profound.

That growth is still being curbed by sharp declines in car sales (down by 20.0%YoY) which account for more than 8% of the total sale of goods. Sales of durable goods (furniture, house appliances, electronics) fell by 4.4%YoY. At the same time precautionary purchases of fuels at the end of February, triggered by uncertainty after the Russian invasion of Ukraine, translated into soaring sales of liquid fuels (22,1%YoY).

Retail sales of liquid fuels

%, Year-on-Year



In the last two years, retail sales volatility was shaped by pandemic containment measures that impacted trade activities such as the temporary lockdowns of shopping centres. In February 2021 we observed a visible rebound of retail sales after malls re-opened following the January lockdown, and that generated a high reference base. In February last year sales went up by 5.3% Month-on-Month (seasonally adjusted).

Retail is still coping with the legacy of the pandemic as sales growth is still below the pre-pandemic trend. In the coming months, retail sales should be supported by the inflow of refugees from Ukraine. Elevated demand for necessities should more than compensate for more cautious spending on durable goods.

VAT rate cuts temporarily tamed the increase in the prices of goods. The implied retail sales deflator moderated to 7.8%YoY in February from 8.5%YoY in January. A surge in gasoline and diesel prices and broad-based rises in other prices will translate into further growth of goods prices from March onwards.

Construction output strong prior to the war but this should slow

Construction output grew by 22.1% YoY in February, faster than the previous month (20.8%) and the consensus estimate (20.9%). The strong print results from the construction of buildings maintaining a strong pace (38.7% YoY vs 39.0% in January) and specialised construction works accelerating (22.2% YoY vs 14.7% a month prior). On the other hand, civil engineering output proved lacklustre, growing just by 2.9% YoY.

Strong growth in housing construction reflects a record number of started projects in 2021, which are currently being finalised. The projects were likely started and planned prior to the high NBP interest rate hikes. Since then housing demand weakened (as suggested by demand on mortgages). In addition, construction companies reported an outflow of 30-40% of their Ukrainian workers. We expect housing construction to be primarily affected as it employed the largest number of migrants. This suggests a substantial slowdown in this part of construction, which was buoyant prior to the Russian aggression, in the coming months.

Unusual economic slowdown ahead.

We estimate that the economy was still expanding robustly (GDP up by ~7%YoY) in the first quarter of this year but is expected to slow markedly in the following quarters. It will mainly stem from a deterioration in foreign trade and slower investment growth amid the still buoyant growth of consumption fuelled by an inflow of refugees and generous fiscal spending. In 2022 we project a "bizarre" economic slowdown with a consumption boom (inflow of refugees) and elevated inflationary pressure.

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