

Polish sales still weak; infrastructure investment surprises on the upside

A shift in demand towards services and higher prices are likely dragging on retail sales. But infrastructure investment should continue to grow after the planned amendment of the budget



Shoppers at the Poznan City mall in Poland

+5.4%

Retail sales in August (YoY)

Consensus at 5.7%

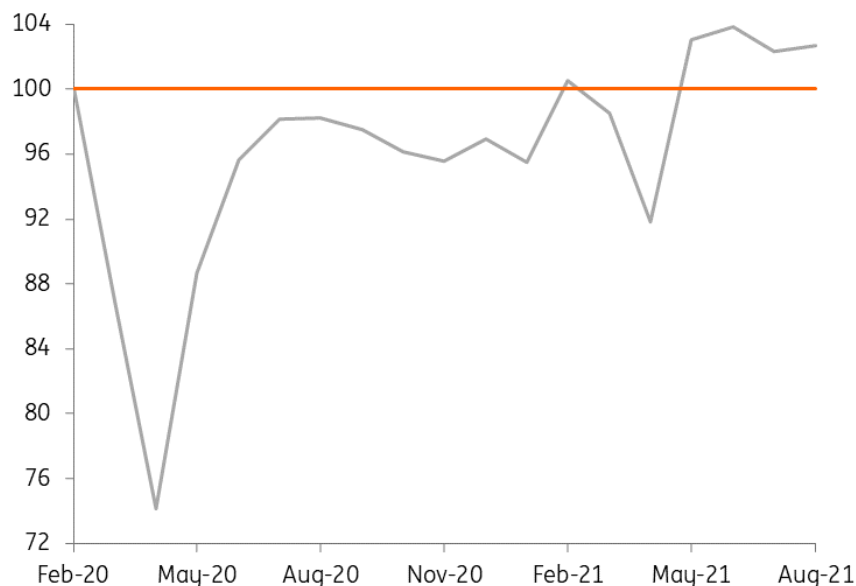
Lower than expected

In August, retail sales increased by 5.4% year-on-year in real terms. This was only slightly better than the relatively weak outcome in July (+3.9%) and a tad worse than the consensus forecast (5.7%). Sales of fuel and food were lower in August than last year, probably reflecting strong price increases in these categories. Sales of clothing accelerated to 28.6% YoY from 15.8% in July, newspapers to 7.9% from 2.6%, and other items to 12.5% from 3.5%.

After seasonal adjustments, the volume of sales grew by just 0.4% month-on-month in August.

This is a weak result, particularly after a 1.5% drop in July. While sales levels have remained above pre-pandemic levels since May, momentum is clearly slowing.

Retail Sales, Volume, February 2020=100



Source: CSO

In our view, the recent weakness of retail sales is largely the result of a shift in consumer demand towards services which became available after the loosening of restrictions. This demand for services likely strengthened during the summer but is not included in sales data published by the CSO. Consumer demand in Poland remains strong. It accelerated sharply in 2Q21, and there is no reason for it to slow given the fast wage growth and low unemployment. What's more, tax changes introduced by the Polish Deal should boost it even further next year, at the expense of a lower savings rate of households.

There is no doubt that high inflation is also affecting the volume of sales. In nominal terms, sales rose 10.7% YoY, but nearly half of that was due to price increases.

Infrastructure investment rebounded in August

Construction and assembly output came as a positive surprise. After a rather weak July (+3.3%), in August it grew by 10.2% YoY, while the consensus indicated 7.5%.

A strong improvement was seen in infrastructure works, which rose 6.8% YoY after a 5.9% drop in July. Specialised construction is also gaining momentum with real growth reaching 29.7% YoY in August after 17.1% increase in July. The coming months may bring further improvement in these areas. Although Poland's Recovery and Resilience plan has not yet been approved by the EU, the government plans to amend this year's budget in 3Q21. The amendment assumes, among others, more funds for road and railroad investments.