

Positive signs in Poland's August data

Polish data for August signalled a turnaround in economic conditions in the third quarter. Manufacturing is still under pressure, but the decline in retail sales eased and construction output increased. The odds that the Polish economy may avoid a third consecutive decline in annual GDP have increased. We still see sluggish growth in 2023 though (0.4%)



A shopping mall in Warsaw, Poland

Retail sales surprised to the upside in August

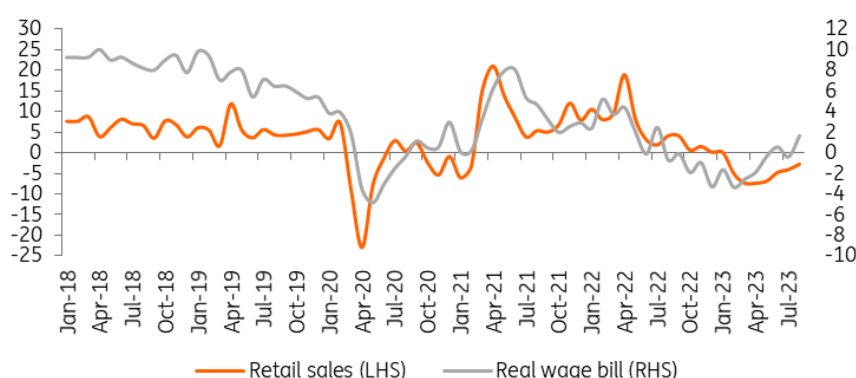
Retail sales of goods fell by 2.7% year-on-year in August (ING: -4.1%; consensus: -3.8%), following a 4% decline in July. The reading topped our and the market's expectations. The smaller drop in sales compared to July was related to necessities. The decline in food and fuel sales was clearly shallower than in the previous month. These categories account for around 40% of total retail sales. We continue to see double-digit declines in purchases of durable goods (furniture, consumer electronics, household appliances). Seasonally-adjusted data indicates a 1.3% month-on-month increase in sales. The retail data also suggests a further decline in upward pressure on prices of goods, although the pace of disinflation is slowing. The implied retail sales deflator moderated to 6.0% YoY in August from 6.4% YoY in July.

Disinflation to support consumers

The expected further decline in inflation will support a steady recovery in real household disposable income, especially as wages will, in our view, continue to grow at a double-digit rate in the medium term. Consumer confidence has been improving since the beginning of the year. The decline in annual retail sales is, to some extent, linked to Ukraine refugee migration, which bumped up sales in 2022, generating a high reference base. The decline in private consumption in the third quarter should be markedly shallower than the 2.7% YoY observed in the second, with a more pronounced rebound to be seen in the fourth quarter.

Recovery in real incomes to support consumers

Retail sales and real wage bill in enterprises, %YoY



Source: GUS, ING.

Better-than-expected construction performance

In August, construction output rose by 3.5% YoY vs. a 1.1% YoY increase in July. The result was significantly better than the consensus of 1.1% and our forecast of 0.3%.

The stronger growth in overall construction was mainly due to a shallower-than-expected decline in building construction (-5.0% YoY from -7.8% in July). Strong double-digit growth (11.8% YoY) in civil engineering continued. In this area of the construction sector, Poland benefits from the finalisation of projects using the 'old' EU budget, as funds can be used until the end of this year. Specialised works recorded an increase of 0.9% YoY, following a decline of 3.4% in July.

The improvement in the performance of the construction sector in August was accompanied by an impressive increase in housing starts (up 39.4% YoY), but with declines in the number of dwellings completed (-2.0% YoY) and housing permits (-7.5% YoY). On a year-to-date basis, however, marked declines were recorded in all three categories: -19.5% YoY, -0.2% and -29.8%, respectively.

August was a month of recovery in the construction industry. This can be linked to the launch of the government's '2% safe credit' programme, which had probably previously restrained the commencement of some projects. Expectations of interest rate cuts, which materialised even on a larger-than-expected scale in September, were also supportive of the construction sector recovery. Demand for credit and the credit eligibility of potential borrowers are also improving. As a result, the construction industry is expecting stronger demand for housing.

As expected, infrastructure investments continued to perform well in August. We believe that this category will remain the main driver of construction this year. Storage and logistics work should also continue to make a positive contribution.

Signals of economic turnaround in 3Q23

We expect that 3Q23 could be a turning point in the Polish economy. Private consumption is finally rising, which is expected to drive the recovery. The August data set (industrial production, construction, trade) turned out to be better than our forecasts. Thus, there is a growing chance that the economy will avoid a third consecutive contraction in annual GDP in the third quarter. For the year as a whole, however, growth will be low (around 0.4%).

Author

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

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