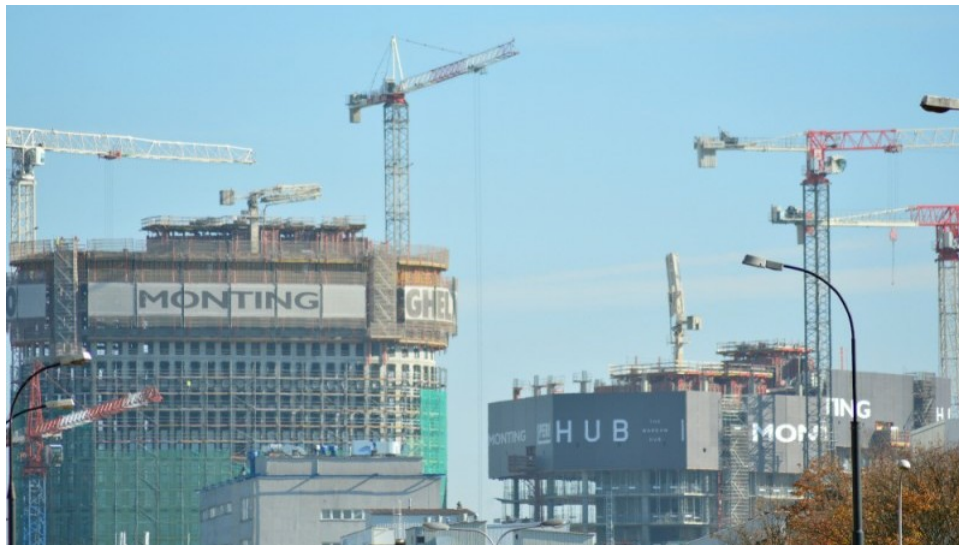


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Snap

Polish problems: Shift in behaviour and rising costs creates challenges

High prices and a shift in consumption patterns from goods to services are limiting retail sales. The construction industry is affected by rising costs.



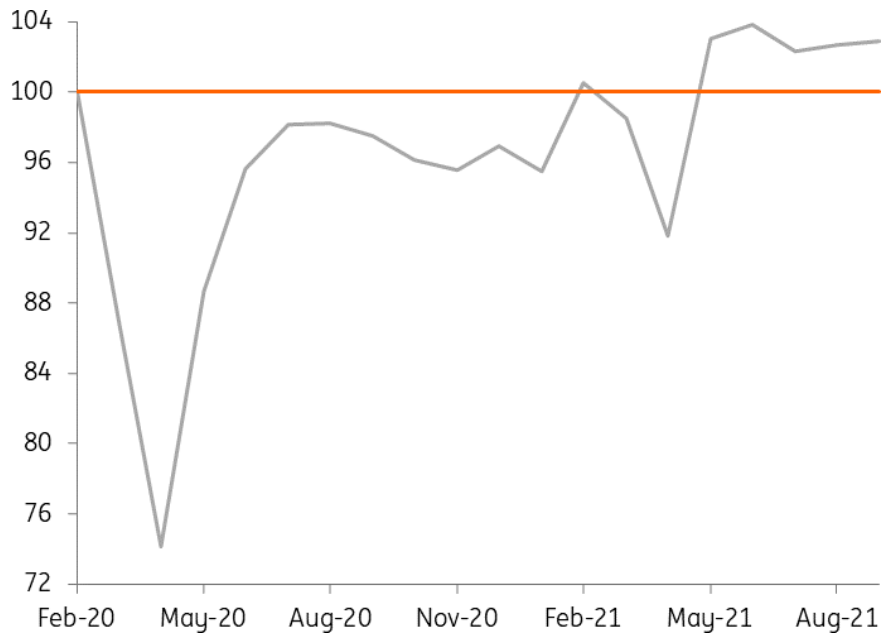
Construction of the 'Warsaw Hub', Poland

In September, retail sales rose by 5.1% YoY in real terms, compared to a 5.4% increase in August. The result was in line with the market consensus and close to our forecast (5.3%).

- Clothing sales increased by 14.5% YoY after a 28.6% increase in August,
- Furniture sales increased by 8% compared to 0.1% in August.
- Fuel and food sales increased by just 0.4% and 0.3% YoY, respectively. These are categories that have experienced high price increases recently and could weigh heavily on household choices, especially since people are already having to cope with higher electricity and natural gas bills.
- Vehicle sales fell 4.1% YoY after a 5.7% increase in August. Supply constraints are affecting not only production but also the consumption of these goods. For some products, such as cars, waiting times are lasting many months.

Excluding seasonal factors, retail sales overall rose by a mere 0.2% MoM compared to a 0.4% increase in August and modest readings in the previous months. Sales remain higher than before the pandemic, after a sharp rebound in May as the economy opened up. But since then, growth has been more moderate.

Retail Sales, Volume, February 2020=100



Source: CSO

The price increases that we have seen, might be a constraint on future sales growth. In nominal terms, sales in September rose by 11.1% YoY after a 10.7% rise in August. Solid labour market data, including a declining unemployment rate and faster-than-expected wage growth, suggest that household incomes are rising, but that the accelerating inflation rate, limits their purchasing power.

In addition, sales performance may still be affected by a change in consumption patterns. Households are probably benefiting from the greater availability of services that are not covered by the CSO's retail sales statistics.

Worse-than-expected construction output.

After a positive surprise in August, September brought a disappointment in construction data.

- The construction and assembly production index increased by 4.3% YoY in real terms, while surveyed economists had expected an increase of 8.3%.
- Infrastructure construction was up 1.2% YoY compared to 6.8% growth in August.
- Specialised works increased by 21.7% vs. 29.7% a month ago.
- In contrast, construction of buildings fell by 3.4% YoY after rising by just 0.4% in August.

Infrastructure and specialised construction may benefit in the coming months from the increased government's funding for roads and railroad investments in this year's amended budget. As for building construction, the rising price of materials and the lack of availability of attractive land may be a drag on the sector.

The demand for housing should remain high. Although interest rates were raised recently, they are still deeply negative in real terms and the labour market performance is strong

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