

Poland's retail sales finally rebound on solid real wages

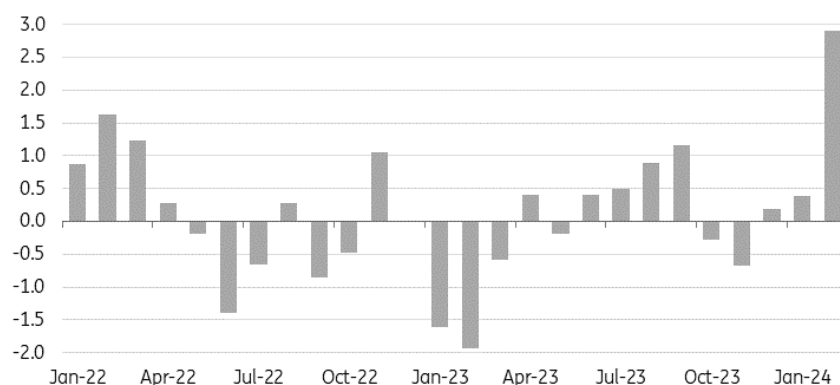
February saw a strong rebound in retail sales, with growth of 6.1% year-on-year, clearly faster than January's 3.0% rate and above our consensus forecast. Also, the seasonally adjusted data shows the highest growth since the post-Covid reopening. Consumption may surprise on the upside in the first quarter



The vigorous recovery in real household disposable income, driven by double-digit growth in real wages (up 12.9% YoY on CPI inflation of 2.8% YoY in February) and the generous indexation of pension and social security benefits since the beginning of the year, is increasingly translating into consumption growth.

The significant scale of growth in real disposable income of households has so far allowed for the rebuilding of savings, depleted during the period of high inflation. But today's data shows that, with a lag of about three quarters, the higher pace of income is beginning to translate into consumer spending.

Monthly real growth of retail sales, seasonally adjusted, MoM, SA, in %

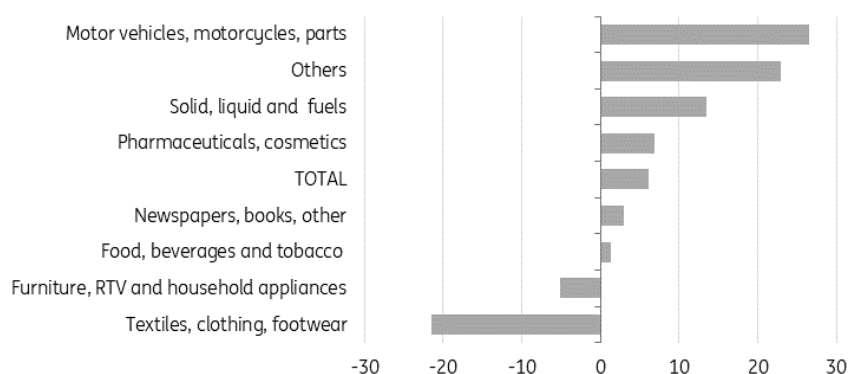


Source: CSO data.

In the retail sales structure, the fastest year-on-year growth in real terms was recorded in vehicles (+26.6% YoY), other sales (+23%) and fuel (+13.4%). Sales of pharmaceuticals and cosmetics also grew strongly (6.9%), with slower sales of food and beverages (1.3%).

In contrast, the largest declines occurred in textiles, clothing and footwear (-21.5% YoY) and furniture, radio/tv, household appliances (-5.2%). For these categories, however, the declines are smaller than in January. They result from the relatively high baseline at the beginning of 2023 and abnormal weather conditions (February was almost 6 degrees Celsius warmer than the long-term average, so winter clothing sales are low).

Real growth of retail sales by category, YoY, in %



Source: CSO data.

Retail sales data are another sign of a gradual recovery after yesterday's industrial data also came in stronger than expected. Today's German manufacturing PMI index disappointed, but in our view, there are bottom-up signs that German businesses are also experiencing a gradual recovery in global manufacturing, which should add to the recovery of Polish domestic demand.

Construction continues to disappoint in February, but in our view, this may have to do with clearing some work before the end of 2023, at the end of the EU perspective.

2024 outlook

Our baseline scenario for this year assumes a continued recovery in real household disposable income and consumption. We also assume investment will grow, albeit at a slightly lower rate than in 2023, but hopefully involving a wider range of companies than in 2023 when only a few large companies grew investments.

Overall, February data released this week has been better than expected. Industrial production expanded by 3.3% YoY, above consensus of 2.4%. Also, the figures for January were revised upward from +1.6 to +2.9% YoY. Retail sales also beat our above-consensus forecast, and are likely to keep growing in March given that public pay increases should happen in March, with catch-up payments accounting for February and January. This factor, combined with the January increase in the minimum wage and high indexation of social benefits, should drive household income and high sales growth. So March sales data may also be strong, suggesting solid consumption growth in 1Q24.

In our view, nominal disposable income growth will exceed 10% in 2024, and - in a lower inflation environment - this will leave enough room for both savings to recover and consumption to grow. Our forecast for GDP growth in 2024 is 3.0% but we see a chance for faster growth.

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