

Poland's retail sales disappoint at year-end

The recovery in consumer spending has been slow so far, despite a marked rebound in real wage growth, as Poles increase savings. Despite the weaker data for late 2023, we believe consumption will rebound this year as real disposable income rises faster than before the pandemic



Shoppers at the Poznan City mall in Poland

- Retail sales in December 2023 fell by 2.3% year-on-year in real terms, compared to the consensus estimate of +1.7%, and following a 0.3% decline in November. Sentiment, including on spending plans, has improved, but the propensity to save has also increased, probably due to high price growth in previous quarters.
- Purchases of durable goods, i.e. furniture, consumer electronics, and white goods decreased by -11% YoY and continue to underperform. The decline in fuel sales also deepened relative to November (-6.4% vs -0.9% YoY in November). The collapse in demand in this category began in November when the effects of promotional fuel prices expired. Poles likely continued to benefit from October's stocks. Invariably, the strongest sales dynamics remain in the category of motor vehicles, motorbikes, and parts (10.2% YoY), although slightly weaker than a month ago (11.8%). The fulfilment of delayed orders from the pandemic period continues. In the other categories, YoY sales dynamics were similar to the levels of a

month ago.

- Despite the weaker data for the end of 2023, we continue to believe consumption will rebound this year. The growth of real disposable income is already higher than before the pandemic. In our view, this will be sustained by, among other things, high wage growth, the indexation of social benefits (based on the end of high inflation) and the further deceleration of inflation in 1Q24. We can also see an improvement in household sentiment, including declared spending plans. At the same time, the declared increase in the propensity to save is a problem. This suggests that consumer spending dynamics in 2024 may improve at a slower pace than expected so far.

Conclusions from full set of data for December

- There are cautious signs of a recovery in manufacturing, after two very weak months in 4Q23. Seasonally adjusted data for December shows an increase in month-on-month output in manufacturing. The strong rebound in total output (+2.9% MoM) is likely distorted by the energy sector, where the statistical office traditionally has trouble measuring price changes. Construction shows a further rebound as well.
- Employment data came in better as well. Seasonally adjusted full-time employees jumped for the first time since April 2023, but mainly due to services rather than industry. Weaker wage growth is likely a one-off. As we predicted, bonuses came down after the election period and companies limited wage hikes ahead of a large minimum wage increase (c.17%) in January 2024. Both factors will soon dissipate in 2024.
- Retail sales remain weak, but the category is disrupted by the flow of migrants. In real terms, household incomes are already growing as fast as before the pandemic, but Poles are more willing to save.
- The economy is preparing for a rebound. For most of 4Q23, the momentum slowed after a better 3Q23, but December brings hope of a recovery.
- We estimate that the economic recovery in Poland continued in 4Q23 and GDP grew by 1.4-1.5% YoY vs 0.5% YoY in 3Q23. We estimate full-year GDP growth of 0.3-0.4% YoY, in line with our forecasts. We expect further improvement and project real GDP growth of around 3% in 2024.
- Still, given weak eurozone activity and a high propensity for Poles to save, it may prove less impressive than recently expected.

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