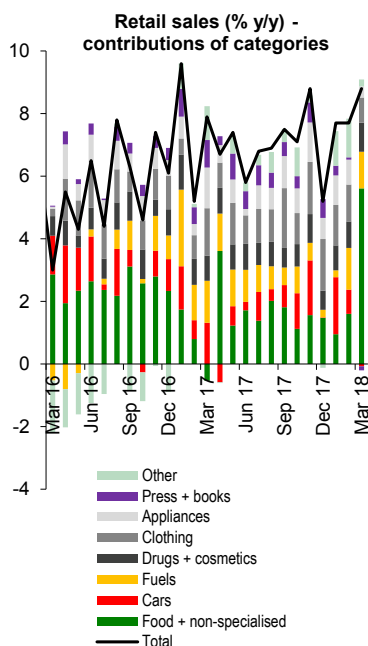


ECONOMIC COMMENT

23 April 2018

Enough time to shop in March

Retail sales accelerated to 8.8% y/y in March from 7.7% r/r in February, in line with our expectations (8.6% y/y) and above the consensus (7.8% y/y). Easter was a crucial supporter of sales, while Sunday trade ban was in our view neutral or slightly negative for growth, but strongly affected its breakdown. In our view, high growth rate of retail sales will stay in the months to come, underpinning private consumption. Statistics Poland revised GDP data for 2016-2017. The most striking change is down revision of 4Q17 investments to 5.4% y/y from 11.3% reported earlier. Also, the peak of the cycle moved from 4Q17 to 3Q17. A revised estimate of general government deficit showed 1.7% of GDP vs the preliminary reading of 1.5% of GDP.



Easter boosted sales, but trade ban changed its breakdown

Retail sales accelerated to 8.8% y/y in March from 7.7% r/r in February, in line with our expectations (8.6% y/y) and above the consensus (7.8% y/y).

Main drivers of sales were food (rise by 13.8% y/y – the fastest in more than a year) and sales in non-specialised stores (17.4% y/y – the fastest in more than two years). Surely, these two categories were supported by Easter. As it was scheduled for 1 April, consumer were shopping and preparing in March. Last year, Easter was on 16 April, so holiday-related shopping took place in April entirely. Still, total growth in these two categories was really strong (they added 5.6 percentage points to total sales as compared to 3.6 pp in April 2017), making us believe that Sunday trade ban, introduced on 1 March, was positive for sales in these categories. Apparently, consumers stormed big shops on other days in order to acquire enough first need products for Sundays.

Results in other categories were in turn quite poor – sales of clothes decelerated to 13.0% y/y from 20.7% in February. In our view it was mainly an effect of cold March, which shifted the demand for new spring collection. Car sales growth went down to -0.6% y/y from 6.9%, sales growth in furniture, consumer electronics and household appliances slowed down to 4.5% y/y from 10.2%. 'Books and press' category showed -2.5% y/y, down from +1.3% and the 'other' category the slowdown went from 13.1% y/y to 2.2%. We think that in these part of retail sales the effect of Sunday trade ban was negative (maybe in case of cars we would blame more the lower number of working days), and the contribution of these categories to overall growth of retail sales was c2pp lower than a month earlier. In general, we think the trade ban had a neutral or slightly negative impact on sales growth, but it caused significant shifts in its breakdown.

Let us note that Statistics Poland's survey data on retail sales sector showed a lower assessment of current revenues and a downward correction of expected sales both for March and April, which in our view may be connected to trade bank, no to lower demand. Consumer sentiment remains high – both the current and expectations indicators have posted new records recently. Income situation of Polish households is very positive as well, given wage bill rising by 9.3% y/y in 1Q18. In our view, high growth rate of retail sales will stay in the months to come, underpinning private consumption.

No jump in investments in 4Q17

Statistics Poland revised GDP data for 2016-2017. The most striking change is down revision of 4Q17 investments to 5.4% y/y from 11.3% reported earlier. The office explained that it was due

Year	Timing of Easter	Contribution of food and non-specialised shops to total sales	
		March	April
2014	20.04	-2.7	5.3
2015	5.04	4.6	0.3
2016	27.03	2.9	1.9
2017	16.04	-0.5	3.6
2018	1.04	5.6	-

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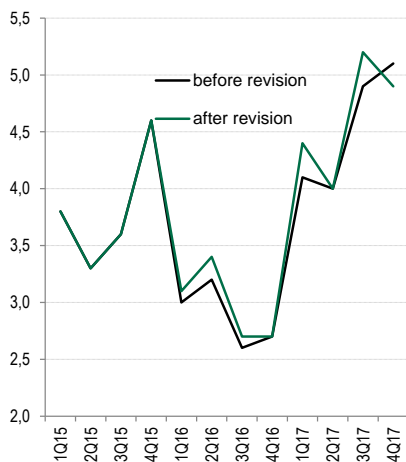
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GDP growth, %/y



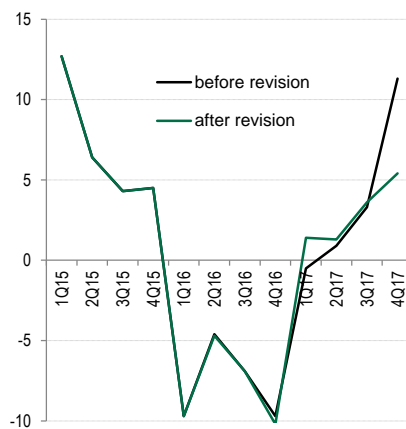
to a correction of local government spending and lower weapons systems purchases. Due to the revision, the peak of the cycle moved from 4Q17 (now at 4.9% y/y, down from 5.1%) to 3Q17 (up from 4.9% to 5.2%). 1Q17 growth was revised up by 0.3pp which means 1Q18 headline will have to face a higher base. It might move further away from 5% than 4Q17, as a consequence.

New GDP data show higher path of net exports contributions (by 0.8pp in 4Q17) and confirm a strong support from private consumption. So while the revision shows Polish economy already in the slowdown phase and surge of investments in 4Q17 – that was a source of hopes for 2018 – was trimmed, we still expect only gradual deceleration of pace of GDP growth.

2017 general government deficit above the first estimate

Statistics Poland presented a revised estimate of general government debt and deficit in 2017. The deficit was revised to 1.7% of GDP from 1.5% of GDP.

Investment growth, %/y



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