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Economic Comment

Retail sales and business sentiment: no breakthru

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Retail sales dropped by 4.7% y/y in June vs. -6.8% y/y in May and in line with expectations (we: -4.8% y/y, market: -5.0% y/y). The data shows further stagnation. Yet, we remain optimistic in our outlook for private consumption in 2H23, which will be helped by growing consumer confidence and improvement in real wages. Business sentiment indicators did not move much in July: some sector show gradual rise of optimism, industry has not seen a positive breakthrough yet. In June, procurement prices of basic agricultural products fell m/m for the sixth month in a row. In autumn there may be an upward impulse in the domestic food market due to the effects of the current drought.

June retail sales print was not bad, but no rebound seen yet

Retail sales in constant prices printed -4.7% y/y in June vs. -6.8% y/y in May and in line with expectations (we: -4.8% y/y, market: -5.0% y/y). Data adjusted for seasonality showed a rise by 0.6% m/m after a decline by 1.1% m/m in May. Sales of durable goods decreased by 8.7% y/y, after falling by 9.4% y/y in May, while sales of non-durable goods dropped by 3.7% y/y, having decreased by 5.9% y/y in May.

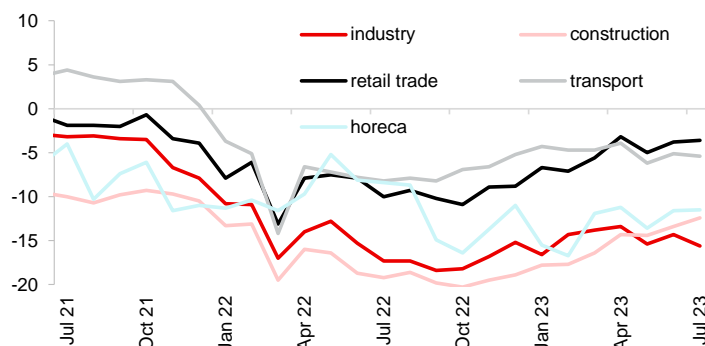
Improvement in annual growth rates was visible in almost all categories, with strongest upward contributions to the headline growth delivered by sales in non-specialised stores and fuels. This was however mostly driven by a statistical base effect, as these categories performed really poorly on June 2022. In the latest reading, they were slightly weaker than we forecasted. Food and clothing sales beat our forecasts. Car sales, helped by the unblocking of supply chains in the automotive industry and the fulfilment of outstanding orders, also looked solid. On the other hand, furniture, consumer electronics and household appliances were weaker than we had expected. In our opinion, the latter category is waiting for a boost from the housing market, which may soon appear.

Overall, retail sales are still stagnating. Monthly growth was quite weak in comparison to previous years (+0.9% m/m vs. +3.6% m/m on average during 2016-2021), and a single positive reading in seasonally adjusted terms, is not enough to call it a rebound. Nevertheless, we remain optimistic in our outlook for private consumption in 2H23, which will be helped by growing consumer confidence and improvement in real wages. In our opinion, private consumption will be the main driver of economic growth later this year.

Business sentiment did not change much in July

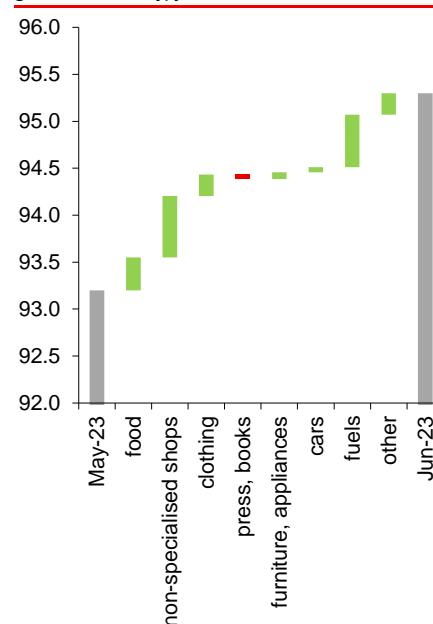
Sectoral business sentiment indicators did not move much in July and the direction of changes was mixed: down for industry, wholesale trade and transport, up for construction, financials and insurance. Industry reported weaker current conditions in July while construction, hotels and restaurants felt improvement.

Sectoral business sentiment indicators, SA, pts



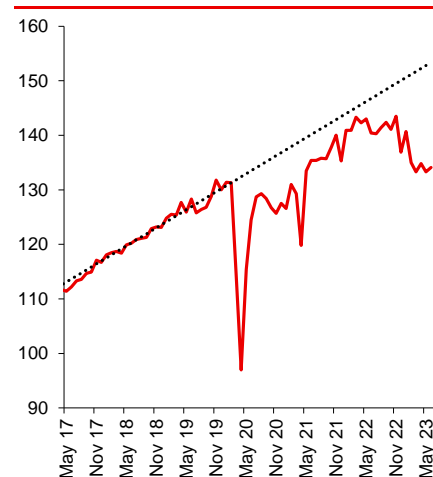
Source: GUS, Santander

Retail sales, breakdown of change in annual growth rate, %/y



Source: GUS, Santander

Retail sales volume, SA, compared with pre-Covid trend

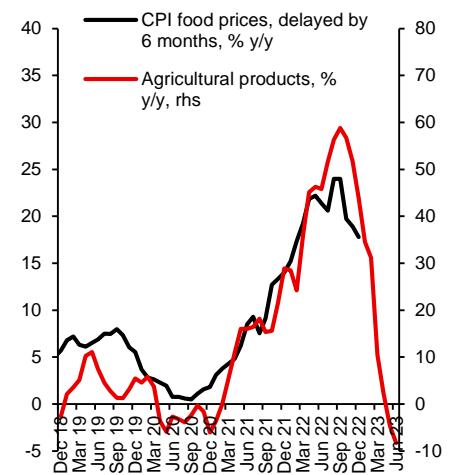


Source: GUS, Santander

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Prices of agricultural products vs CPI food prices, % y/y



Source: GUS, Santander

In terms of year-to-date behaviour of sentiment across sectors industry, transport and hotels and restaurants are flat, information and communication feels significantly worse than at the start of the year, while other sectors show more optimism (financials and insurance, construction, wholesale and retail trade).

We see the business sentiment data as consistent with the scenario of Polish economy preparing for a rebound in 2H23.

Further fall in agricultural prices

In June, procurement prices of basic agricultural products fell by 3.3% m/m and 8.3% y/y. This was the sixth consecutive monthly decline. The prices of cereals, milk, cattle and poultry decreased. However, the prices of pigs and potatoes went up. The strong fall in agricultural prices is an argument for a reduction in the growth of food prices in Poland. On the other hand, in our opinion, there may be an upward impulse in the domestic food market in autumn due to the effects of the current drought. The drought will mainly affect the prices of fruit and vegetables, which are not included in the Statistical Office's list of basic agricultural products (except for potatoes). Cereals, on the other hand, may be under pressure from the broken Russian-Ukrainian agreement on transport across the Black Sea. Overall, however, the supply of agricultural products is increasing globally, which should limit upward pressure on prices in the coming quarters.

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