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Economic Comment

Durable goods to enter a new cycle

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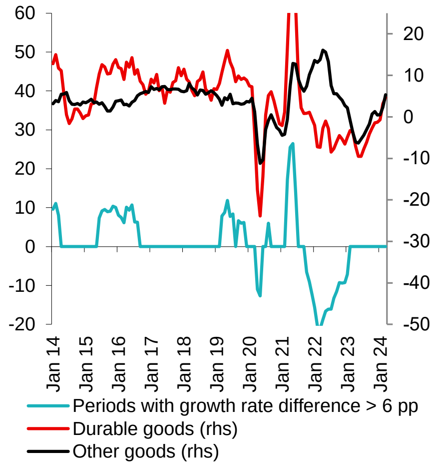
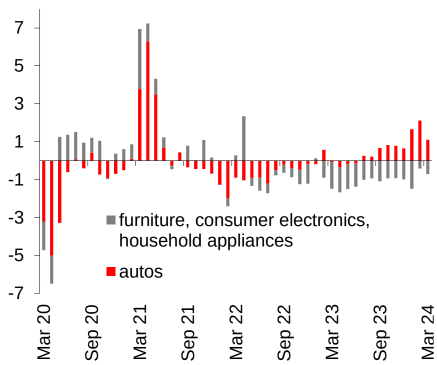
Our macroeconomic scenario for 2024 is founded on a rebound of private consumption which – after a minor decline last year – will reach in our view c. 4%. However, this rebound will not come about if households do not rush shopping for durable goods. The notion that a new cycle of durable goods purchases should begin soon is supported by a few factors: the time which has passed since the last cycle began, consumers' sentiment and their willingness to make major purchases, as well as the developments in the housing market. The data from the economy are already signalling that the new cycle in durable goods purchases has begun, though it has not yet spread to all their categories. A similar conclusion can be drawn from our credit cards data. We think that the rebound in purchases of durable goods has already begun and will gain strength in the coming quarters.

Retail sales in constant prices, % y/y, 3M moving average; periods with a large difference in growth rates of durable goods and other goods highlighted



Source: GUS, Santander

Contribution of selected categories to y/y growth of retail sales in constant prices, percentage points



Source: GUS, Santander

Durable goods purchases cycle

Purchases of durable goods are characterised by a cyclicality of sorts. They alternate between periods when their sales grow significantly faster than those of other goods and periods when no such difference in growth rates is apparent or it is negative. The high phase of the durable goods purchasing cycle covered the second half of 2015, the first half of 2019 and the first half of 2021 (although already during 2020 there was a period of increased durable goods purchases). On this basis, it can be said that the durable goods cycle lasts about 2-3 years, so the next one should start soon.

1Q24 has brought a recovery in total retail sales, though so far durable goods have not yet clearly and systematically outpaced other goods in terms of sales growth (but they no longer fall behind other goods in this respect, unlike in previous years). The contribution of durable goods to total sales growth has improved compared to 2H23. The improvement was however based mostly on stronger auto sales and to a lesser extent on smaller decline in furniture, household appliances and RTV equipment sales.

The previous cycle, which covered the time since the outbreak of the pandemic, was atypical - it started sooner than it should have and had a double peak. This was a consequence of the pandemic-induced need to retrofit homes with furniture and household/RTV/IT appliances as early as 2020. The abnormal run of the cycle was also caused by high variability in the availability of retail outlets, which kept being closed and re-opened with the successive waves of COVID-19. In consequence, the new cycle may have a flatter profile, with the high phase extended in time, but exhibiting only moderate rise of the sales of durable goods, instead of a clear concentration of household purchases in a short period.

Still, the time that has passed since homes had been adapted and retrofitted for remote work suggests that it is time to replace equipment that has worn out, became outdated or whose performance falls short of what is currently available. Such demand should in principle occur regardless of the current improvement in real household incomes and their recovering optimism.

Consumer sentiment presents a supportive pattern

According to GUS survey of consumer sentiment, in April, consumers continued to open up to making large expenditures, despite some doubts about their future finances and overall economic situation as well as job security. The index of willingness to make large purchases reached its highest in 2.5 years and thus returned to its long-term average. In 2021, this was enough to trigger a wave of purchases of durable goods. The current financial situation is rated by households as good as in 2021, and the index describing attitudes to saving is also in the same place as in 2021.

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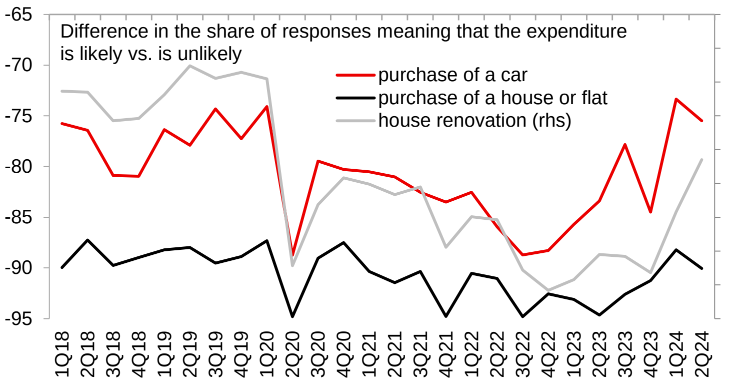
The quarterly part of the consumer sentiment survey also shows a favourable pattern of indicators from the point of view of demand for durable goods. The indexes of intentions to buy a car, a house or a flat and to carry out renovations in the next 12 months have started to move upwards in the course of 2023 and their 1Q and 2Q24 readings show that the trend is still in place.

Indicators of major expenditures planned by households within the next 12M



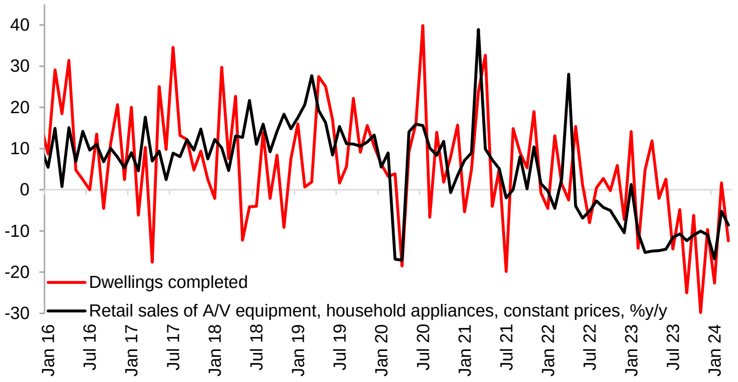
Source: GUS, Santander

The housing market developments will add to the demand for durable goods

Mortgage loan demand has been boosted in recent quarters by the government's ‘2% Secure Loan’ programme. This is another element that hints that a rebound in durable goods purchases is coming. The programme allowed people to buy houses and apartments at various stages of construction, so it probably will not take a whole construction cycle to see it translate into demand for household appliances. An increased stream of housing completions would definitely support this segment of consumer durables. Data on the number of permits and construction starts suggest that a rebound is also taking place on the supply side of the housing market.

Statistics on housing completions show a correlation with purchases of home furnishings, and recent months have seen a rebound in y/y dynamics in housing market data, although systematic positive growth has yet to materialise.

Housing market and the sales of RTV and household equipment, % y/y

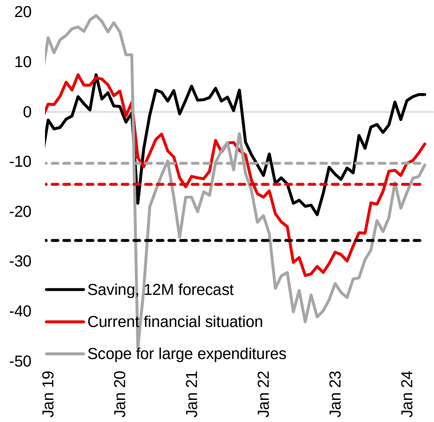


Source: GUS, Santander

Durable goods – what do banks see?

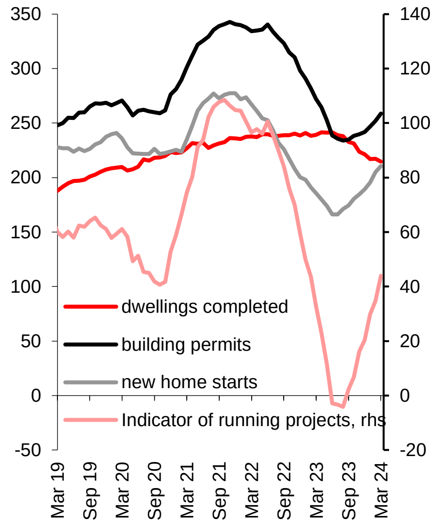
Over the recent months we have observed a marked recovery in demand for consumer credit. Data from the NBP show that in March 2024, the average sales of new consumer loans over the 12 preceding months amounted to PLN7.5bn, compared to the minimum of PLN6.0bn registered in late 2022 (+25%). In nominal terms, this is a record-high value, whereas in real terms – i.e. after deflating the numbers with CPI (which, however, is not an ideal deflator for credit) - we are c. 15% below the peak from September 2019.

Selected indicators from consumer confidence survey with their long-term averages, pts



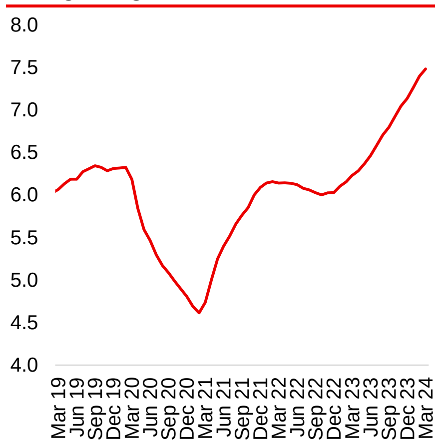
Source: GUS, Santander

Polish housing market tendencies, 12M moving sum, in thousand units



Source: GUS, Santander

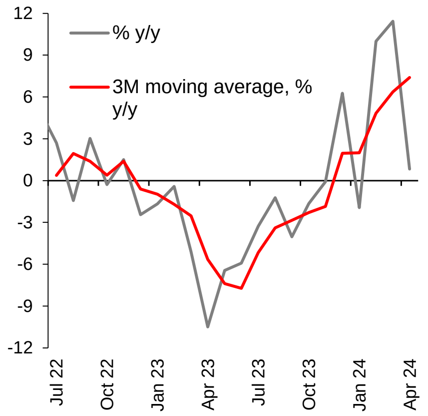
Monthly value of consumer loan sales, 12M moving average, PLNbn



Source: NBP, Santander

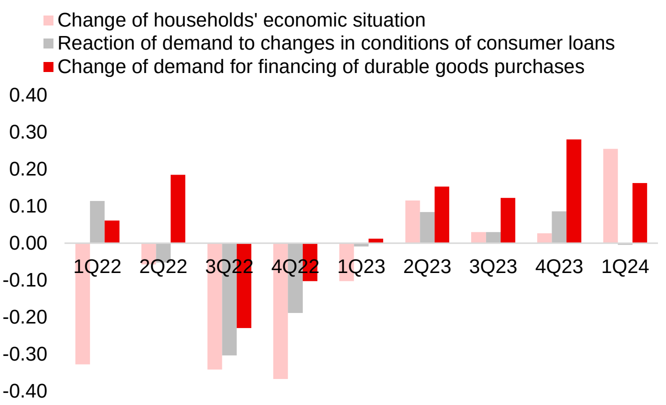
The NBP credit survey shows that, in recent quarters, the improving demand for consumer credit has been driven by rising demand for durable goods. According to the credit committees surveyed, between 2Q and 4Q23, this factor was even more important than the improvement in the economic situation of households. Although changes in credit conditions supported demand in recent quarters, their impact was judged to be much smaller than that of the recovery in demand for durable goods.

Santander – card expenditures on durable goods, average expenditure per client, % y/y



Source: Santander

Senior Loan Officers' survey: reasons for changes in consumer loan demand



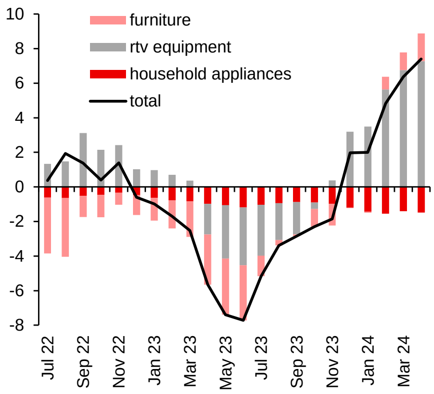
Source: NBP, Santander

Santander Bank's card data show that at the turn of the year, average spending on durable goods stopped declining in annual terms and instead began to increase. The improvement is seen primarily in electronics and furniture. However, we have not observed annual increases in purchases of white goods - in this case, the data show only that their annual declines stopped deepening at the beginning of the year.

We know from CPI inflation data that white goods were 1.5% cheaper y/y in April. The price movement was smaller than the decline in spending recorded in our card data in nominal terms, suggesting that in real terms spending is also falling, albeit only slightly. In contrast, A/V and IT equipment cheapened by 7.3% y/y, telecom equipment by 9.4% y/y and furniture was on average 0.8% more expensive y/y - these categories showed higher growth in our data than their price change over the period, suggesting an improvement in real terms.

However, the card data we analyse are characterised by high volatility and in April alone showed an almost complete disappearance of y/y growth in durable goods spending. This type of data is also susceptible to changes in customers' preferences on how to pay for their purchases.

Santander – card expenditures on durable goods, average expenditure per client, 3M moving average, % y/y, growth structure



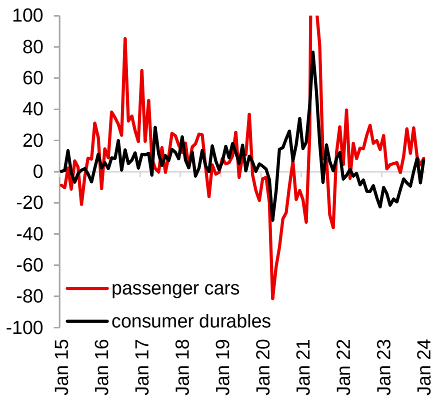
Source: Santander

Could this cycle in durable goods look different? Risk factors

The problem of the 'double peak' in the previous cycle is not the only factor that could disrupt the current one - by different distribution in time of durable goods purchases. An additional element to take into account is the post-pandemic phenomenon of households concentrating more on collecting experiences than on accumulating material goods. This manifests itself, for example, in a greater interest in tourism (increasing number of flights, demand for hospitality services) - which may draw their purchasing power away from durable goods - but also in more intensive use of streaming services (which actually happens to favour the purchase of IT, A/V equipment and phones).

Another phenomenon to be reckoned with is the rebuilding of the real value of financial assets by households after a period of losses caused by high inflation. In our view, this was one of the reasons for the weakness of private consumption in 4Q23 (slowdown to 0.0% y/y from 0.8% y/y, +0.2% q/q) despite the increase in real incomes during this period. The recovery in savings may continue to reduce the propensity to consume, especially when it comes to discretionary spending.

Weight of Poland's imports of selected goods, %y/y



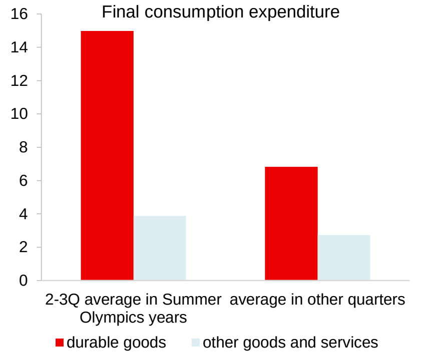
Source: Eurostat, Santander

Responses from retailers selling white goods, consumer electronics and furniture to the GUS survey of business sentiment in the retail trade sector remain decidedly negative. The sector's general climate index fell in April to its lowest level since March 2023 and also one of the lowest since mid-2020. Only a few components of the survey suggest that the industry senses a coming improvement. This holds us back from firmly stating that a new cycle in durable goods has already begun. At the same time, however, imports of these goods have started to show y/y increases.

Among factors that may provide a support for households' purchases of consumer durables in 2024 are the upcoming major sport events: the UEFA Euro 2024 football championships in June and the summer Olympics in Paris - historical data from the past two decades show that sales of consumer durables often increased markedly before the Olympic games. The average annual growth in spending on consumer durables in the quarters of the summer Olympics and the quarters preceding them diverges upwards from the average of the other periods.

In our view, the crystallisation of a new cycle in consumer durables, understood as a transition to a phase in which their sales grow clearly faster than the rest of goods, is near.

Polish households' final consumption expenditure and the Summer Olympics, % y/y (based on data since 2005)



Source: Eurostat, Santander