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Economic Comment

Plunge in retail sales

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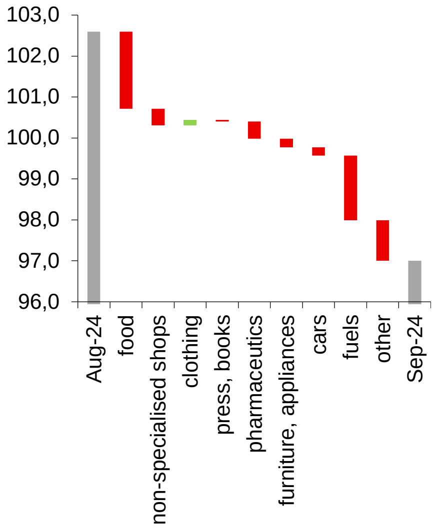
The growth rate of retail sales unexpectedly dropped in September to -3.0% y/y from 2.6% y/y in August, well below the consensus of 2.2% y/y and our forecast of 2.5% y/y. In seasonally-adjusted terms sales fell 6.7% m/m after advancing 1.9% m/m in August. Both durables and non-durables contributed to the decline. However, the main source of the negative surprise seems to have been food, whose dynamics plunged from -0.4% y/y to -7.6% y/y. The first explanation for the decline in retail sales that springs to mind is the flood that occurred in southern Poland last month. However, our analysis of Santander Bank clients' cards expenditures showed a way less pronounced effect. It seems that other factors may have been in play. Although the decline in retail sales in September will most likely negatively affect 3Q GDP results, the weakening of consumption should only be temporary, and - given the strong growth of wages and the historically low unemployment – likely does not reflect structural effects.

Business sentiment indicators showed an improvement in most sectors in October, in particular in the retail sector, whose sentiment index has been rising for the past four months.

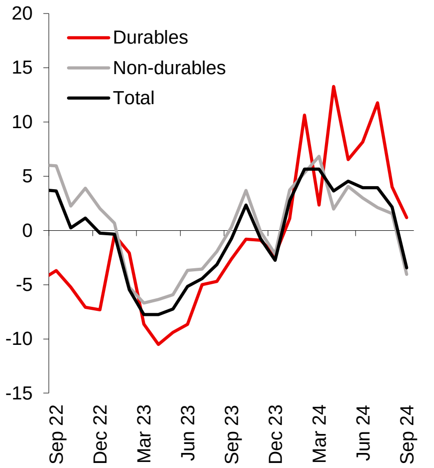
In September, the prices of agricultural products increased by 2.2% m/m and it was the strongest increase since September 2022. We assume further growth in the coming months, which will translate into an acceleration of retail food prices recorded in the CPI.

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



Source: GUS, Santander

Retail sales, main categories, % y/y



Source: GUS, Santander

Retail sales surprised with a strong decline

The growth rate of retail sales unexpectedly dropped in September to -3.0% y/y from 2.6% y/y in August, well below the consensus of 2.2% y/y and our forecast of 2.5% y/y. In seasonally-adjusted terms sales fell 6.7% m/m after advancing 1.9% m/m in August. The size of the decline was puzzling, as it was the strongest one since the pandemic of 2020.

Both durables and non-durables contributed to the decline, with the growth rate of the former falling from 4.0% y/y to 1.2% y/y, and the growth rate of the latter from 1.6% y/y to -4.1% y/y. However, the main source of the negative surprise seems to have been food, whose dynamics plunged from -0.4% y/y to -7.6% y/y. According to our estimates, after excluding foods, retail sales declined "only" c. 1.7% y/y. Other categories of goods also contributed negatively to the decline of overall sales, especially fuels, whose sales dynamics fell from 5,7% y/y to -4.8% y/y. In this case, the weakening in the year-on-year growth rate can be partially explained by the high statistical base in September 2023, which was caused by the reductions in the prices of fuel. However, the base effect was not the main cause of the decline, as the month-on-month growth rate fell c. 4 percentage points more than usually in September. Declines in the pace of sales growth were registered also for most other categories of goods, but their impact on the growth rate of overall sales was not as severe as in the cases of food and fuel. An improvement was recorded only for clothing, but its size equaled only 1.1 pp, which means that clothing's sales dynamics remained well below zero, at -12.5% y/y.

The first explanation for the decline in retail sales that springs to mind is the flood that occurred in southern Poland last month. Although our analysis of the data on credit and debit card expenditures of Santander Bank clients suggested that the size of the decline in sales was not nearly as big as shown in today's release, it cannot be excluded that our data were not a fully representative sample in that case, and that the decline in expenditures may have been greater in the case of e.g. cash transactions. In our view, the scope of the flood does not justify the size of the decline in retail sales, especially given the fact that the impact of the previous floods, e.g. the one from 2010, on retail sales was not as great. The decline in sales is also not consistent with other economic data, e.g. today's business climate

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indicators which pointed to an improvement in the retail trade sector. Therefore, we assume that other factors must have affected sales, though currently we do not know what these factors are.

Although the decline in retail sales in September will most likely negatively affect 3Q GDP results, the weakening of consumption should only be temporary, and - given the strong growth of wages and the historically low unemployment – likely does not reflect structural effects.

Business sentiment indicators slightly higher in October

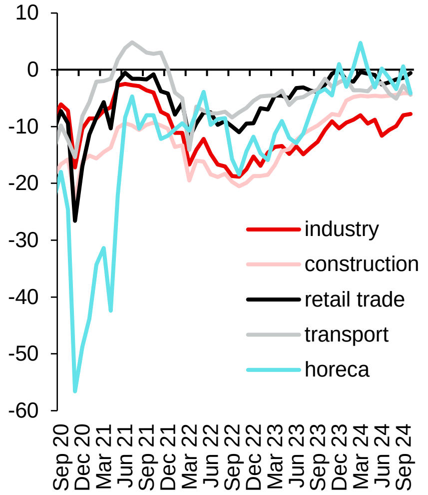
In October, business sentiment as measured by GUS improved in most sectors. The strongest increase was seen in retail trade, whose index has been going up since July. Minor improvement was recorded in industry (the fourth rise in a row), information and communication, wholesale trade as well as financial and insurance services. Construction index was flat m/m while a significant deterioration was signalled by transport companies, hotels and restaurants. Overall, the results show some further improvement, but do not signal a rising economic momentum at the turn of 3Q and 4Q.

The previous edition of the retail trade survey covering September showed a decline in the sub-index of current sales, but it did not reach any extreme levels that could explain the major slump in hard data seen in September retail sales released today. This makes us even more cautious in interpretation of the retail sales print.

Strong increase in agricultural prices

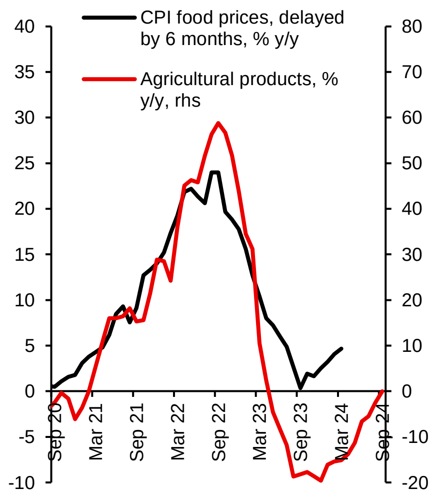
In September, the prices of agricultural products increased by 2.2% m/m and it was the strongest increase since September 2022. Upward move was clearly visible in milk, wheat, oat and farm animals. Prices declined in case of corn and potato prices, which, in our opinion, is related to the accelerated vegetation and earlier harvest. On an annual basis, the prices of agricultural products went to zero after 16 months in negative values. We assume further growth in the coming months, which will translate into an acceleration of retail food prices recorded in the CPI.

Sectoral business sentiment indexes, SA, pts



Source: GUS, Santander

Agricultural prices vs CPI food prices, % y/y



Source: GUS, Santander

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