26 November 2024

Economic Comment

Retail sales are growing again and so are revenues

Bartosz Białas, tel. +48 517 881 807, bartosz.bialas@santander.pl
Marcin Luziński, tel. +48 510 027 662, marcin.luzinski@santander.pl
Grzegorz Ogonek, tel. +48 609 224 857, grzegorz.ogonek@santander.pl

Retail sales growth increased from -3.0% y/y in September to 1.3% y/y in October, 0.2pp above our forecast and 0.6pp above the market consensus. In seasonally-adjusted terms, sales increased 5.6% m/m, after declining 6.7% m/m the month before. The improvement in food sales and sales in nonspecialised shops (e.g. supermarkets), i.e. the categories responsible for the September retail sales collapse, suggests that it was a one-off rather than a sign of structural weakness.

In 3Q, Polish non-financial enterprises employing 50 or more persons registered a marginal rise in revenues, +0.4% y/y. The average markup level calculated as a four-quarter moving average declined further in 3Q24 to 4.3%, from 4.6% in 2Q. Investment of companies employing 50 and more people declined by 10.8% y/y in 3Q24, more than -8.1% recorded in 2Q24. Declines deepened in case of outlays on buildings and machinery, while transport equipment improved somewhat.

Retail sales better than expected

Retail sales growth increased from -3.0% y/y in September to 1.3% y/y in October, 0.2pp above our forecast and 0.6pp above the market consensus, marking the first positive surprise since 1Q. In seasonally-adjusted terms sales increased 5.6% m/m, after declining 6.7% m/m the month before.

Sales of both durable and non-durable goods performed better than we expected. According to our calculations, the dynamics of the former rose from 1.2% y/y to 9.7% y/y, and the dynamics of the latter – from -4.5% y/y to -0.8% y/y. The improvement in overall sales growth was caused mainly by better results in sales of food, whose dynamics rose form -7.6% y/y to -1.2% y/y, and motor vehicles and parts, which rose 24.1% y/y after 11.2% y/y the month before.

It is worth to note that according to the data released by GUS, the September plunge in retail sales resulted mainly from a sudden drop in the sales of food, whose size had, in our view, no fundamental justification. The improvement in food sales in October, as well as – according to our estimates - the simultaneous improvement in the sales in nonspecialised shops (e.g. supermarkets) from -4.7% y/y to 1.2% y/y suggest that the September weakening was a one-off and did not reflect structural effects.

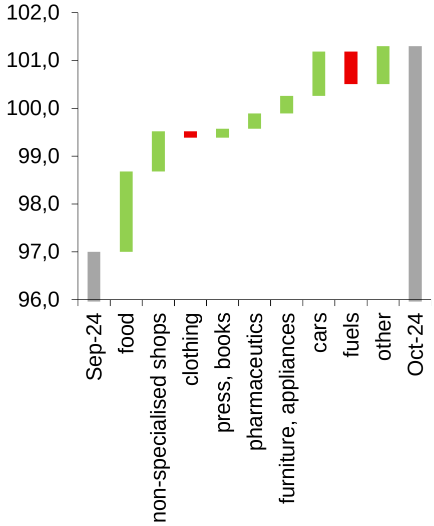
Although the positive surprise in retail sales was not as big as in the case of industrial output, it alleviates some of the worries about the state of domestic private consumption, which, in our view, should still offer significant support to economic growth in the coming quarters. Still, we expect that in 2025 private consumption growth will slowly decelerate, and with time, the role of the main driver of economic growth will be taken over by investment.

Marginal increase in revenues and lower markups in 3Q

In the third quarter, Polish non-financial enterprises employing 50 or more persons registered a marginal rise in revenues, +0.4% y/y. Total costs also went up, by 1.8% y/y. For both categories this is the first positive growth rate since 2Q23. Gross operating profit dropped by 27.0% y/y and net profit by 29.9% y/y.

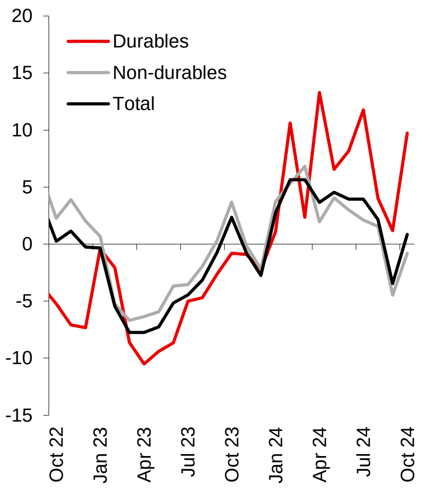
The average markup level calculated as a four-quarter moving average declined further in 3Q24 to 4.3%, from 4.6% in 2Q and the peak at 6.7% registered three years ago. The measure is already pretty close to 3.6% - the minimum seen over the last 20 years. However, the overall markup was affected by a further collapse of profit margins in mining.

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

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 691 393 119
Bartosz Białas +48 517 881 807
Cezary Chrapek, CFA +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

Out of the company cost categories, wage bill went up by 8.8% y/y (vs. 6.2% in 2Q) and external services by 7.4% y/y (2.7% previously). Amortisation cost also contributed strongly positively by accelerating to +17.9% y/y from -1.4% y/y in 2Q. Material costs were down 5.8% y/y (compared to -12.8% y/y in 2Q) and energy cost was down 12.9% y/y. Companies remain in a difficult spot where the cost pressure is still present but the European growth environment does not offer the usual cyclical rise of their revenues in full scale.

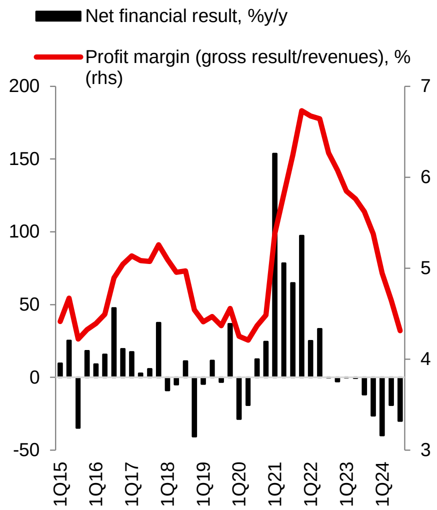
Investment crunch in companies deepening

Investment of companies employing 50 and more people declined by 10.8% y/y in 3Q24, more than -8.1% recorded in 2Q24. Declines deepened in case of outlays on buildings and machinery, while transport equipment improved somewhat.

Deep declines were still recorded in manufacturing, energy, water supply and transport. A visible improvement was recorded in construction. Sectors with high dependence on EU funding saw a further deepening of investment crunch: to -27.2% y/y from -17.5% y/y in 2Q24, while other branches saw some improvement to -2.6% y/y from -3.8% y/y.

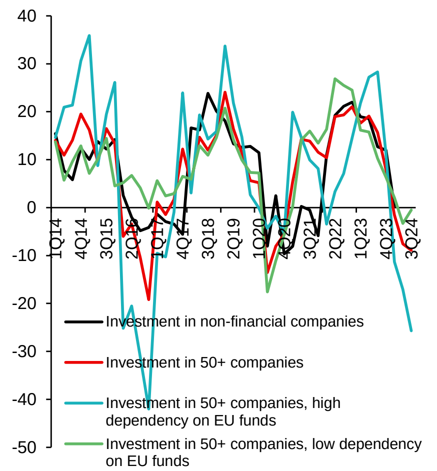
These numbers confirm our assumption that a rebound in total investment in 3Q24 is unlikely (detailed GDP data are due for release on Thursday 28th). Still, we assume that inflow of EU funds will finally translate into stronger investment, allowing the GDP growth to accelerate moderately in 2025.

Financial results of enterprises employing 50+ persons



Source: GUS, Santander

Corporate investment, % y/y, nominal terms



Source: GUS, Santander

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.