CEE Economics

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Economic Comment

Another disappointment in retail sales

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Retail sales joined the set of disappointing February data, showing a decline of 0.5% y/y. The slowdown was seen in almost all categories. In part, this may have been a correction of the exceptionally strong January result. Given the still positive growth in real household income and the diminishing potential for further increases in the savings rate, we view the February reading as another random deviation from a moderately positive trend, which should be consistent with around 3% y/y growth in private consumption this year. Nevertheless, the data has intensified market expectations about the scale of possible rate cuts this year.

Corporate earnings improved slightly in 4Q24 relative to 3Q24, and the scale of their y/y deterioration slowed markedly, suggesting that while Polish companies are still operating in a challenging environment, their situation may be stabilising. Investment in the sector of companies employing 50 or more people fell by 8.4% y/y in 4Q24, following a 10.8% y/y decline in 3Q in real terms.

Surprisingly strong January in retail sales followed by surprisingly weak February

Retail sales in constant prices fell in February by 0.5% y/y and by 6% m/m, which was well below our forecast and market consensus at 3.3%-3.4% y/y. The low print came right after a surprisingly strong result in January (revised from 4.8% to 4.9% y/y), so to some extent it was probably a correction of the atypical result from the previous month. However, the size of the downturn seems worrying - after seasonal adjustment, sales fell 3.2% m/m.

The slowdown was broad-based and affected most of categories, with the exception of books and press. The most significant deceleration was recorded for automotive sales and sales in non-specialised shops. According to our estimates, after excluding cars and fuels, sales in constant prices rose 0.3% r/r, after 3.2% y/y in January and compared to a near-zero average in 4Q24.

It is hard to attribute the disappointing result to the calendar effects – while the number of working days was lower by 1 than in February 2024, the number of Fridays and Saturdays, when the most of retail expenses are made, was exactly the same as last year.

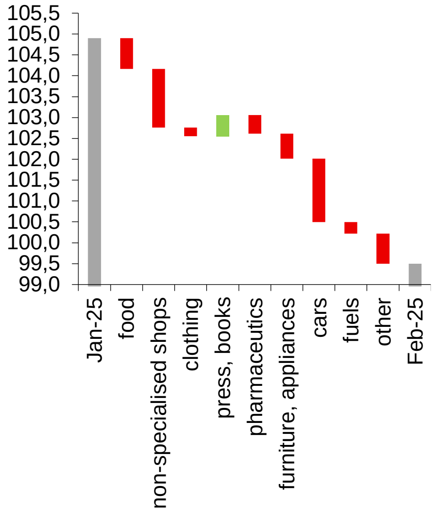
We do not see reason for persistent, marked slowdown in retail sales or in general in private consumption, as households' real income growth is still positive (and, in our view, will remain positive until the end of the year) and the potential for further increase in saving rate is running out, in our view. Thus, we treat the February reading as another disruption in a moderately positive trend, which should be consistent with c.3% y/y private consumption growth this year.

Having said that, February retail sales join the streak of weaker-than-expected data that could intensify a discussion in the MPC about the policy easing. So, the data may trigger a further decline in FRA rates, pricing-in possibility of earlier rate cuts. We still think the next rate cut will take place in July 2025.

Stabilisation of enterprises' situation

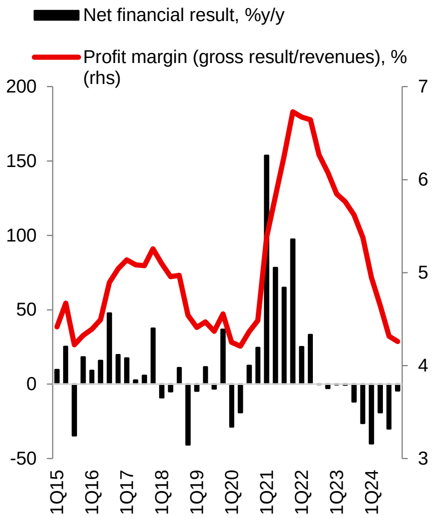
In 4Q24, the pace of decline in nonfinancial enterprises' gross financial result eased to 6.4% y/y from 27.0% y/y in 3Q24, reaching the least-negative level since 2Q23. The improvement resulted from a 1.1% y/y drop in costs and a 1.3% y/y decline in revenues. According to our estimates, the former was caused mainly by tax-and-fee-related costs declining 23.0% y/y (after a 6.3% y/y drop in 3Q24), and amortisation-related costs falling 0.3% y/y (after rising 0.8% y/y), which reduced the contribution of each of these categories to overall costs growth by an additional 1.1 pp. Cost growth eased also in most other categories, most importantly materials, but also in wages and energy, although to a smaller degree. In effect,

Decomposition of retail sales growth, % y/y



Source: GUS, Santander

Enterprise results



Source: GUS, Santander

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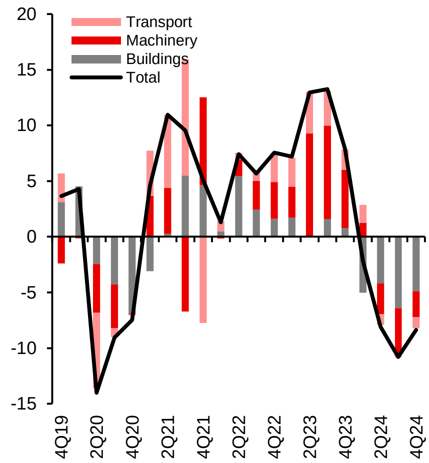
profit margin improved from 3.5% in 3Q24 to 4.1% in 4Q24, because of which its 4Q moving average stabilised at 4.3% after five consecutive quarters of declines.

Overall, the data suggest that the environment of Polish enterprises remains challenging, but their situation seems to be stabilising. We expect further improvement in the next quarters.

Investment in companies fell slightly slower

Investment companies employing 50 or people fell by 8.4% y/y in 4Q24, following a 10.8% y/y decline in 3Q24 in real terms. Outlays on buildings (-12.2% y/y vs. -16.4% y/y) and machinery (5.1% y/y vs. -9.2% y/y) improved slightly, while outlays on means of transport deteriorated (-7.6% y/y from -2.3% y/y). In nominal terms, annual growth improved in manufacturing and transport, but worsened in water supply, construction, information and communication, real estate services and administration and support activities. These data do not add much to the assessment of the investment outlook, as we already know the result of investment in the whole economy in 4Q24 (+1.3% y/y). However, they confirm that the positive result was achieved thanks to the public sector. In 2025, we expect a revival of companies' investment appetite, but this may be a rather slow process.

Investment in companies employing 50+, % y/y, breakdown



Source: GUS, Santander