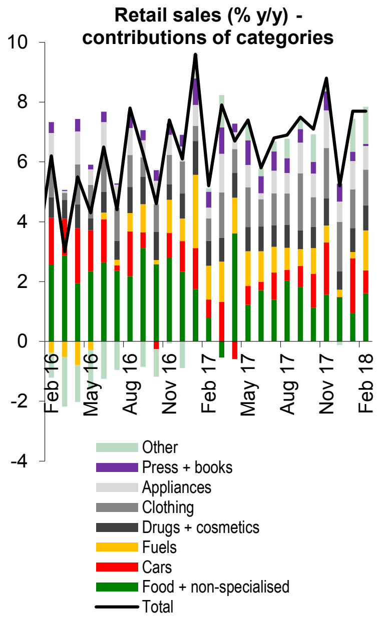
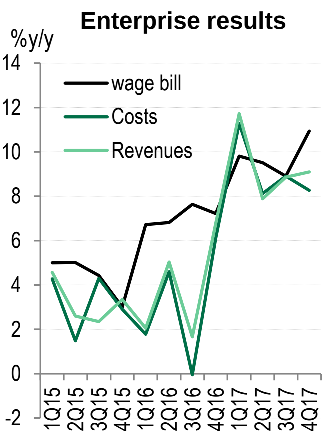
ECONOMIC COMMENT

21 March 2018

Retail sales supported by February freeze

Retail sales in constant prices rose in February by 7.7% y/y, unchanged versus January, in line with market consensus and slightly above our forecast of 7.4% y/y. February saw a slowdown in durable goods sales, especially cars – to 6.9% y/y from 17.9% y/y in January. The lower car sales growth rate was offset by the higher growth of fuel sales, which accelerated to 8.8% y/y in February from 1.3% y/y in January. Fuel sales were raised by heavy freeze in late February. Data on retail sales support our forecast of robust private consumption growth in 1Q18 by c5% y/y. Financial results of the biggest companies showed a robust growth of revenues and relatively high margins, despite rise in wage bill by 10.9% y/y in 4Q17.





Lower car sales offset by fuel

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February saw a slowdown in durable goods sales, especially cars – to 6.9% y/y from 17.9% y/y in January. In our view, mostly the weaker working-day effect is to blame. This category is most vulnerable to this effect and in our view this stems from the fact that it included car purchases made by companies, conducted mostly during office hours.

The lower car growth rate was offset by the higher growth of fuel sales, which accelerated to 8.8% y/y in February from 1.3% y/y in January. Fuel sales were raised by heavy freeze in late February. We observe average temperature in 10 locations in Poland and in February this measure was equal to -3.4°C vs. +2.8°C in January, while the number of days with temperature below -5°C was at 8.5 vs. 0.2 in the previous month.

Data on retail sales support our forecast of robust private consumption growth in 1Q18 by c5% y/y. In the upcoming months we are expecting further positive retail sales prints, supported by high consumer confidence and positive labour market situation. March data are likely to show some distortions due to Sunday trade ban, but we cannot say what will be the short-term impact of the new regulation on sales.

Companies margins did not succumb to rising labour costs

Stat office data on non-financial corporate quarterly earnings showed revenues rising by 9.1% y/y in 4Q17 while costs rose 8.3% y/y. Gross financial result was 29.5% higher y/y and net result 37.4% y/y higher. The data confirm that wage bill is rising rapidly, by 10.9% y/y in 4Q17 compared to 8.9% in 3Q and 9.5% in 2Q. Wages once again posted a relatively high contribution (1.6pp) to the overall y/y rise of costs with the two biggest contributors being materials (3.9pp) and external services (1.9pp). However, the high growth of wage bill does not undermine margins – 4Q-moving average of profit margin went up to 4.4% in 4Q17 from 4.2% in 3Q17, reaching the highest level since 2012. Thus, companies may not yet feel big pressure from wage costs which could lead to higher prices of end products.

Based on financial results of the biggest companies, we estimated that investment rose by 12.0% y/y in real terms in 4Q17, as compared to total growth of investment in the economy by 11.3% y/y. This shows that investment revival was recorded also in the private sector.

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