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Economic Comment

Sales did not deliver

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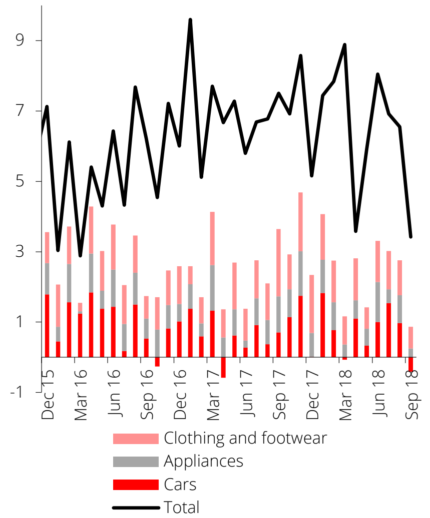
Retail sales disappointed in September. Instead of a robust 6.2% y/y real growth, we saw only +3.6% y/y. This was even below the lowest forecast on the market, and we expected 6.5%. Sharp deceleration in auto sales related to the new exhaust emission limits does not explain the whole negative effect. Growth of the wage bill and consumer sentiment index eased somewhat in September, but are still at a high level. That is why we do not view the September's sales disappointment as a harbinger for a long-lasting deceleration.

Retail sales disappointed in September. Instead of a robust 6.2% y/y real growth, we saw only +3.6% y/y. This was even below the lowest forecast on the market, and we expected 6.5%. In nominal terms, retail sales decelerated to 5.6% y/y from 9.0% - the slowest growth since October 2016 if we exclude April 2018 that was distorted by the timing of Easter.

Car sales tumbled to 4.3% y/y from 16.7% and 11.0% in July and August, respectively. A similar pattern was visible in other European economies and this development was due to introduction of new emission standards (sales were supported by this factor in the preceding months). However, weakness of the September readings was visible also in other categories. Sales ex autos expanded by 4.2% y/y as compared to 6.1% y/y in August, posting the weakest growth rate since spring 2016, if we omit Easter-related distortion in April. Sales on non-durables slid to 4.4% y/y from 5.8% y/y in August. Annual growth rate was additionally undermined by high base effect in clothing and footwear due to weather issues (cold September 2017 boosted sales in this category to over 30% y/y).

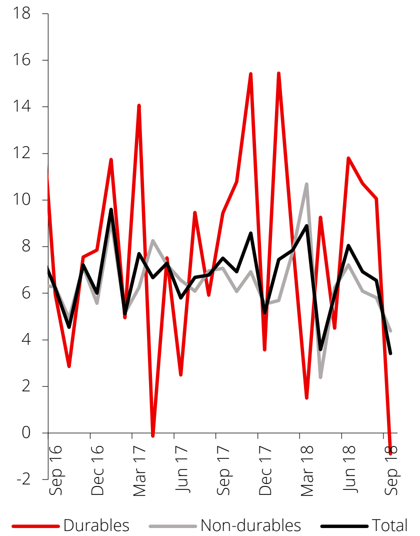
Retail sales were posting sanguine results in the summer months, while consumer confidence and financial situation remain high in general (yet the September readings for wage growth, employment and consumer confidence were disappointing). Thus, we suspect that there could have been a time shift in demand, and the September weakness does not have to foretell a collapse of the current trend. Furthermore, the September's sentiment indices in retail sector suggested improvement of future sales and new orders. Still, the huge deviation of September reading from our baseline forecast is a blow for our assumption that private consumption growth stayed at 5% y/y in 3Q18.

Retail sales (% y/y) - contributions of selected categories



Source: Stats Office, Santander Bank Polska

Retail sales in main categories (% y/y)



Source: Stats Office, Santander Bank Polska

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