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Economic Comment

Retail sales' strong end of the year

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In November, Polish retail sales rose by 5.2% y/y in real terms, beating the consensus of 3.9% and our 4.3% forecast. We attribute this positive surprise to the holiday season shopping activity. In December there was a further decline of business sentiment in Poland. The synthetic index dropped to 99.7 pts, below the 100-point long-term average for the first time in three years (indexes for industry and services fell, construction and retail trade rose).

Retail sales finally managed to significantly beat expectations

In November, Polish retail sales rose by 5.2% y/y in real terms, beating the consensus of 3.9% and our 4.3% forecast. In nominal terms retail sales grew by 5.9% y/y vs 4.8% consensus and this is the first significant positive surprise in this category since April. We attribute this positive surprise to the holiday season shopping activity, which may have been stronger than last year due to additional social transfers paid out this year (child benefit program extension in July).

The categories that surprised us to the upside the most were: "other sales in non-specialised stores" (which are more less retail chain stores' sales) – with a 13.6% y/y growth, the second strongest this year; "furniture and household appliances", that showed some acceleration to 11.9% y/y despite a strong negative base effect; "books and press" and "cosmetics/pharmaceutics" – the gift categories.

All durable goods categories taken together showed growth of 6.7% y/y vs 6.9% previously and vs 1-3Q average of 11% while non-durables sales rose by 3.9% y/y, up from 3.2% and vs 1-3Q average of 3.8%.

We think that for some quarters households can still show strong consumption growth thanks to the boost from social transfers, against the already seen slowdown in real wage bill and the downtrend in consumer confidence.

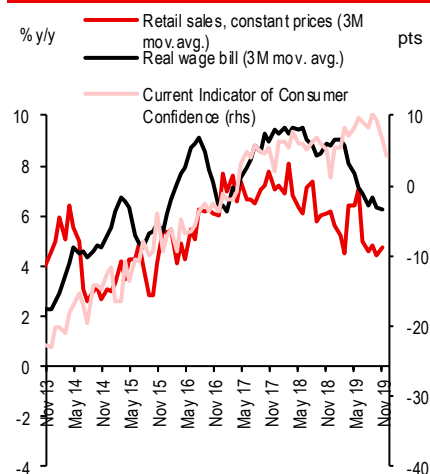
Business sentiment down again

In December there was a further decline of business sentiment in Poland. The synthetic index dropped to 99.7 pts, below the 100-point long-term average for the first time in three years. A significant improvement in aggregate current assessment index that had occurred in October is now gone after two months of declines. The expectations index remained below 100 for the third month running.

The m/m deterioration of the main index was driven by services (weaker demand, sectoral index the lowest in seven years) and industry (worse new orders, but slightly improved expected production). Construction index remains stable at levels way above the long-term average (111.9) and retail trade sentiment improved a bit on better current sales.

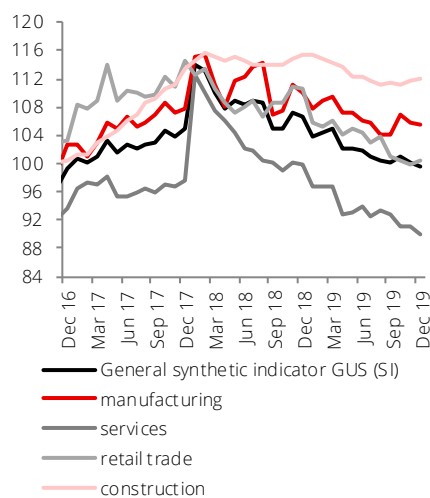
The December set of business sentiment indicators suits our scenario of further gradual slowdown in Poland.

Retail trade, consumer confidence and income



Source: GUS, Santander

Business sentiment measures



Source: GUS, Santander

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