22 April 2020

Economic Comment

Collapse of retail sales and business sentiment

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Retail sales dropped by 9% y/y in March in real terms, while the market had expected a decline of 5.2% and we of 4.2%. Several categories showed a massive drop of sales as the lockdown was announced, and the extra spending on food and pharmaceuticals did little to offset this. In our view the next months will show a much greater decline of retail sales. April set of GUS business sentiment indicators was the first one to cover the lockdown period. All sectoral indexes collapsed way below the minima from the global financial crisis.

Retail sales dropped by 9% y/y in March in constant prices, with lockdown announced in the middle of the month, restrictions on the number of clients in shops and closure of shopping malls. Market expected a decline of 5.2% y/y and we of 4.2% y/y.

Durable goods sales were down by -25% y/y with car sales down >30% y/y (fuel consumption was also reduced significantly due to the lockdown). Sales of shoes and clothes dropped by 50% y/y. At the same time sales of food and pharmaceutics looked relatively strong, but their y/y growth was lower than in February (these were also the only categories with a significant rise of the y/y growth of price deflator). We thought the stock-building of food by households would take the sales growth in this category much higher.

The share online sales in total sales increased in March to 8.1% from 5.6%

In our view the next months will show a much greater decline of retail sales than the already scary 9% for March. The lowest this measure got during the global financial crisis was -4% y/y and the only time when there was a deeper y/y decline was in April 2005 (base effect linked to stock-building ahead of Poland's EU accession in May 2004).

GUS **business sentiment** measures collapsed in April way below the minima from the global financial crisis. For methodological reasons (end of data gathering on 10th day of month) this is the first reading to reflect the coronavirus shock). Hotels and restaurants sector saw the largest decline (businesses closed as part of the lockdown), by more than 60pts. (on a -100/+100 scale). Other sectors saw declines by 40-50pts. Most of the sectoral current situation indicators dropped by 20-30pts m/m (financials, ICT and wholesale trade saw smaller declines), while sectoral expectations indicators fell by c60pts.

GUS also asked businesses about Covid-19 specific issues:

Respondents claim the stability of their business is threatened in 17% (industry) to 36% (transport) of cases, with additional 45-56% claiming there are serious consequences to their business due to the epidemic. Among hotels and restaurants 66% fear about stability – (the numbers below exclude this particularly strongly hit sector).

Firms saw staff reduced by 13-18% (depending on the sector) due to unplanned leaves and child care, and another 4-11% were absent due to quarantine or other epidemic-linked restrictions.

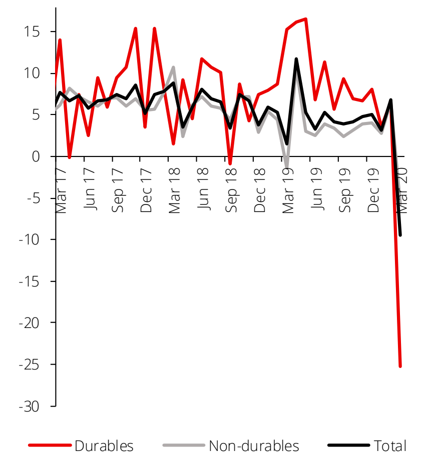
Firms reported that in April they cut theirs orders at suppliers by 22-39% while their clients' orders dropped by 26-38%. Investment plans were already reduced by 30-40% compared to the start of the year.

Company life-threatening liquidity issues were signalled by 10-20% of respondents while 30-42 pointed to serious liquidity risks in April. At the time of the survey government support measures were not being paid out yet.

The business sentiment report confirms that the economy faces a crisis unlike anything else in post-transition history of Poland and that much depends on the timely distribution of support measures.

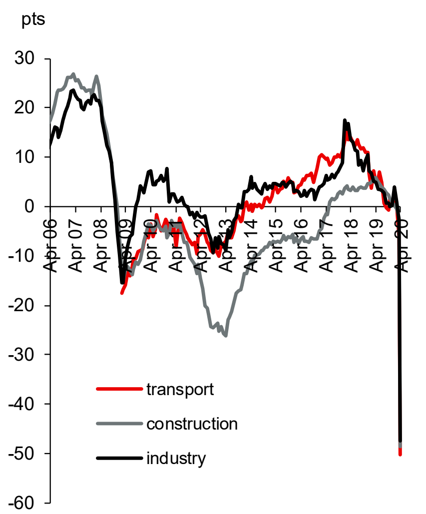
GUS reviewed 2018-2019 GDP data. Growth in all quarters of 2018 was moved 0.2pp higher, 3Q19 moved up by 0.1pp. 4Q19 remained at 3.2% y/y but the growth structure changed significantly: the already surprisingly poor domestic demand growth of 2.2%

Retail sales, constant prices, % y/y



Source: GUS, Santander

Seasonally adjusted business climate indicators



Source: GUS, Santander

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y/y was decreased to 1.3% (the lowest in six years), but the contribution of net exports was increased by the same amount (on higher exports growth and larger decline of imports).

The entire downside revision of domestic demand was caused by lower inventory changes. Contributions of consumption components were not changed while fixed investments growth in 4Q was pushed to 6.1% from 4.9% y/y vs 4.6% recorded in 3Q19.

The positive conclusion that we can draw from the release is that the economy showed the ability to quickly take advantage of improving business sentiment abroad (the flash GDP release for 4Q surprised positively with net exports, which got revised even higher now) before the outbreak of the pandemic. This raises hopes that Poland will be able recover relatively smoothly once the shock is gone.