CEE Economics

Poland

23 February 2021

Economic Comment

Where is the pent-up demand?

Marcin Luziński, +48 22 534 1885, marcin.luzinski@santander.pl

Our analysis of retail sales, retail trade turnover and card payments shows that the occurrence of pent-up demand, i.e. appearance of strong purchases after a decline during lockdown, was not widespread in 2020. This type of demand could have been found so far only in some limited spending categories. The potential for pent-up demand to show up could be higher in the future, when vaccination of sufficiently large share of population allows to get rid of the uncertainty more persistently. However, it will most likely still affect goods and services representing a rather small part of the consumer demand. Thus, we think it is hard to expect that the pent-up demand could be a major factor behind rebound in GDP growth in 2021, especially given that the pent-up demand could be easily confused with the new needs connected with spending more time at home. However, this does not mean we are pessimistic about private consumption outlook for 2021. In our view, even a mere normalisation of demand, i.e. its return to the pre-pandemic pattern, would be enough to trigger a strong rebound. We think that such a normalisation will be possible thanks to the still positive financial situation of households.

Where does the pent-up demand come from?

The epidemic restrictions, including the shutdown of shops and limitations in consumer mobility, undermined the consumer demand. In 2Q20, the private consumption was by 10.8% y/y lower than one year earlier. In 3Q20 it improved and recorded a positive annual growth rate, but in 4Q20 most probably fell again (annual GDP data suggest -3% y/y). Consumption went down strongly enough to make the saving rate rise markedly. At the same time, incomes of households did not fall, but even improved (see chart 1). According to the quarterly financial accounts, the households' net financial assets improved in the first three quarters of 2020 by c.PLN200bn – more or less twice as much as they have been growing annually before the pandemic. We can thus conclude that despite the biggest economic crisis in years the financial standing of households improved. That is why many economists claimed that loosening of epidemic restrictions will unleash a so-called pent-up demand. This term means that consumers will buy more than usually in order to make up for the spending "lost" during the lockdown. We decided to investigate this phenomenon based on data on retail sales, retail trade turnover and card payments in 2020. The aim of the analysis is to identify branches which saw the pent-up demand and to estimate its power.

Construction of our indicator

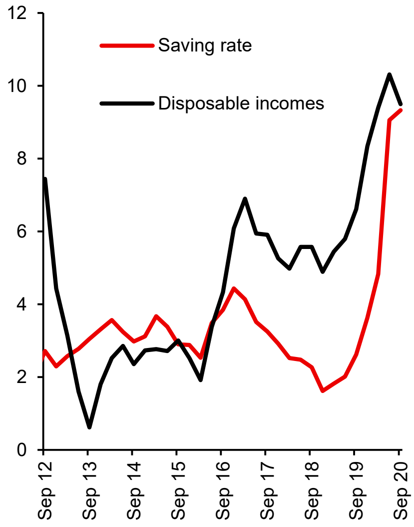
We have calculated indices of retail sales volumes by months in 2020 and in 2017-2019. These numbers were normalised so that average in January-February was equal to 1 for every year. Then for each month of 2020 we have calculated an indicator equal to year-to-date sum of normalised volumes from 2020 and of normalised average volumes from 2017-2019 for the following months. Finally, we normalise the indicator again by dividing it by average annual volume for 2017-2019.

Results of our calculations based on retail sales data are visible on the chart 2. How do we interpret this indicator? If it remains stable near 1, it means that retail sales in 2020 behaved similarly to 2017-2019. If the indicator is going down, it means that a particular month was weaker than in 2017-2019. If it is going up – a particular month was respectively stronger. Value of 0.90 means that if after a particular month the sales would follow trends from 2017-2019, then the annual result will be still by 10% lower than in a "normal year". We define the occurrence of pent-up demand as a rebound of our indicator after its initial decline.

Behaviour of the retail sales

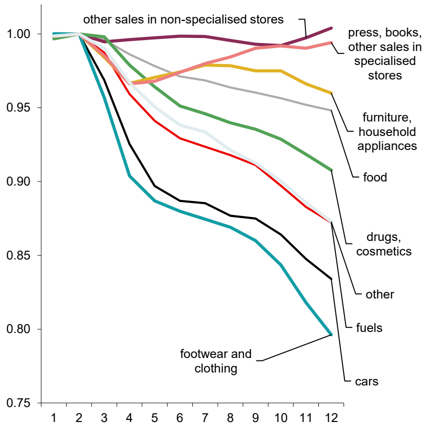
Our analysis shows that in most areas the retail sales did not manage to "make up" for earlier losses in 2020. After a strong decline caused by the first lockdown, sales level improved but still remained weaker than in 2017-2019. Sales of clothes and cars were clearly underperforming. Other sales in non-specialised stores, which we interpret as

Chart 1. Saving rate and growth rate of disposable incomes, average for 4 quarters



Source: GUS, Eurostat, Santander

Chart 2. Indicator of relative retail sales by sector



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Marcin Luziński +48 22 534 18 85
Wojciech Mazurkiewicz +48 22 534 18 86
Grzegorz Ogonek +48 22 534 19 23
Marcin Sulewski, CFA +48 22 534 18 84

supermarkets and discounts, were following 2017-2019 trends throughout the year and the epidemic did not affect this category much. A clearly different pattern is visible in two categories: (1) furniture and household appliances – indicator for this sector was going down until April, the rose until July and stabilised; (2) press, books, other sales in specialised stores, which was falling until April, then was rising until September and stabilised near 1. We think that these two sectors could have witnessed a rise of pent-up demand.

Behaviour of the retail trade turnover

Results of the retail trade turnover data are similar as in case of retail sales (charts 3 and 4). Categories: sales of food, beverages and tobacco, sales in non-specialised stores and sales in non-specialised stores with food, beverages and tobacco predominating saw their indicators oscillating around 1 throughout the year, suggest no major impact of the pandemic. Clothing sales were hit the most. Only one category saw a major rebound after the initial decline and is a candidate for pent-up demand: sales of audio/video equipment, hardware, paints and glass, electrical household appliances. Sales via internet was doing much better than in the previous years, but this is a quite obvious upshot of shutdown of stationary shops and does not have much to do with the pent-up demand.

Where can the pent-up demand be seen?

We search for signs of the pent-up demand in the categories where our indicator recorded a large decline and then a large rebound. The breakdown of the retail sales and retail turnover data is rather rough, so it is quite difficult to tell which products exactly might have been affected. However, the analysis of common points in the retail sales and in the retail turnover data suggests that it is about furniture and household appliances, which make 10-15% of total retail sales. The strength of the effect in these categories (i.e. the rise of the indicator from the April trough) is equal to about 1-2% of annual sales. Hence, the total impact of the pent-up demand on the retail sales and retail turnover may be estimated at no more than 0.5%. The pent-up demand is thus neither common nor strong and if after the next reopening of the economy the same patterns of behaviour were to repeat, then it would be hard to expect it to meaningfully support the trade in 2021.

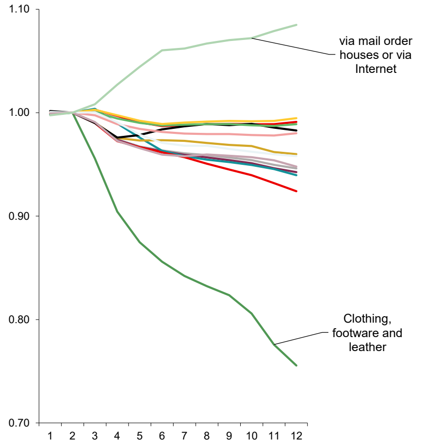
What is more, we may also wonder if the rebound in furniture and appliances should actually be attributed to the pent-up demand. Much longer hours spent at home, remote learning and work called for higher expenditures on home entertainment and higher standard of equipment used for learning and working. Consumers needed to buy new furniture and equipment not because of pent-up demand, but due to new demand being created by new circumstances. This is a good moment to consider internet sales: throughout 2020 they rose more than in 2019, but obviously not because of the pent-up demand, but thanks to new spending patterns, creation of new needs and new distribution channels. So, the rebound in the mentioned categories that we pointed out as potentially showing pent-up demand may actually be a mix of pent-up demand and new needs, new demand. The difference between the two is important – in case of further lockdowns of the economy and the resulting decline of sales we might expect a build-up of the former, but not of the latter as new needs might have already been met (one new desk for remote work is probably enough).

What can we see in card payments?

In order to investigate the issue thoroughly, we analysed card payments of Santander Bank Polska clients. These are less representative than the retail sales or retail trade turnover data. We also have to adjust them for the effect of growing number of clients and rise of popularity of card payments. On the other hand, these data are much more detailed and contain more information about spending on services.

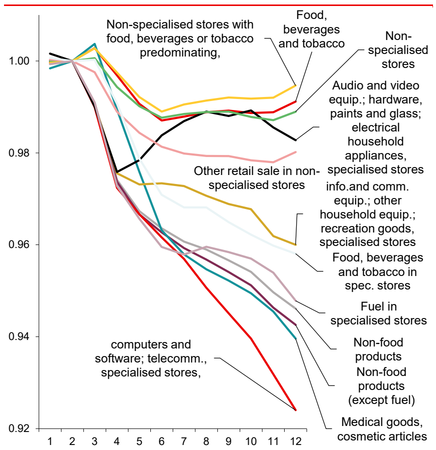
Roughly 58% of card payments were realised in categories where throughout 2020 the situation was weaker than in the previous years (chart 5) so the pent-up demand clearly did not appear. There are some categories that witnessed a normalisation of demand in 3Q or 4Q but there is still no sign of pent-up demand. These make up for about 4% of transactions. Around 33% categories did not suffer any significant drop of sales during the pandemic so there is no reason to look for pent-up demand here as well. 28 percentage points out of these are expenditures that were fairly stable during the year, for example in grocery stores. The remaining recorded a fast growth throughout the year, likely owing to birth of new needs and new demand: courier services, building materials, gardening shops, household appliances stores (see chart 6). In the remaining 5% of categories we have seen a drop of sales in spring and a rebound in autumn and these are the ones

Chart 3. Indicator of relative retail trade turnover by sector



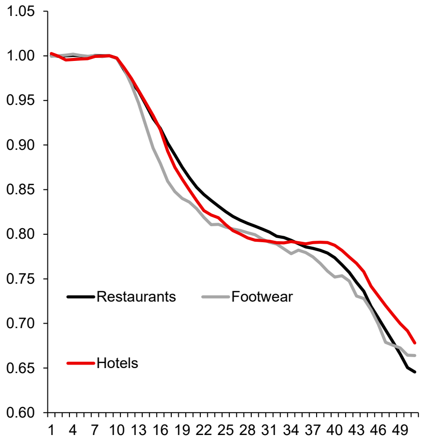
Source: GUS, Eurostat, Santander

Chart 4. Indicator of relative retail trade turnover by sector (zoom of middle part of chart 3)



Source: GUS, Eurostat, Santander

Chart 5. Indicator of relative card payments. Examples of categories which saw situation deteriorating throughout 2020, weekly data



Source: Santander

where we could look for the pent-up demand. This group includes electronic devices, bike stores, furniture, confectionery, department stores (chart 7). As we see – as like in the case of GUS data – there are only few categories where we could try to find a pent-up demand in 2020.

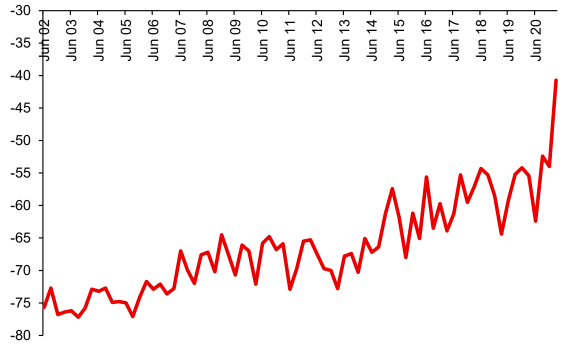
Will the pent-up demand support the 2021 GDP growth?

Above we have highlighted the categories where the pent-up demand could have occurred and we conclude that this phenomenon in 2020 was neither broad-based nor strong.

One may claim that the potential for realisation of the pent-up demand may be higher in the future, when a sufficiently large share of population gets vaccinated (as we assume) and the loosening of restrictions will be more broad-based and more permanent than in 2020. In our opinion, this is possible in areas which did not see a major loosening of restrictions in 2020 and thus customers could not use their services freely. Examples are: tourism, especially tours abroad, recreation (cinemas, theatres, clubs) or the wedding sector. The anecdotal evidence of such a behaviour could be the recent example when Poles rushed to the mountain resorts just after the government re-opened hotels in mid-February, or very high attendance in cinemas just after they were unlocked. The phenomenon might also be more significant in spending for big-ticket goods (e.g. cars) as, according to the consumer confidence surveys, customers were holding back from the more significant purchases in 2020 (see chart 8); also the ESI survey confirms that the share of consumers planning large spending on those kind of goods has surged (see chart 9). However, these sectors constitute only a tiny fraction of the whole economy and the consumer demand. For example, car sales constitute just 0.5% of value added in the economy, while hotels and restaurants make up 1.5%. The foreign tourism is effectively an import of services hence impacts the GDP only very marginally.

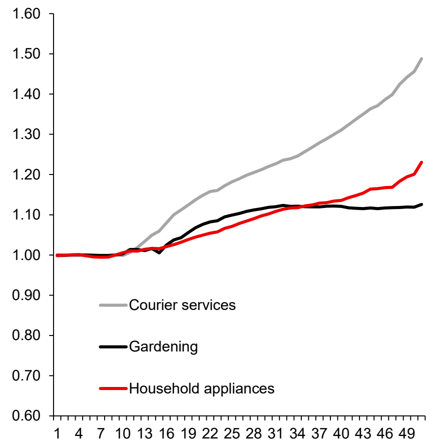
To sum up, we think that net impact of the pent-up demand on the domestic economy in 2021 will be not as strong as one could think. However, this does not mean that we are pessimistic about private consumption outlook for 2021. In our view, a mere normalisation of demand, i.e. its return to pre-pandemic trend, would be enough to trigger a strong rebound. We think that such a normalisation will be possible thanks to still positive financial situation of households.

Chart 9. Net percent of respondents planning to buy a car, ESI survey



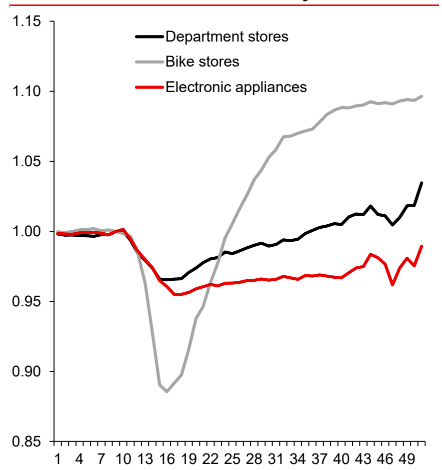
Source: European Commission, Santander

Chart 6. Indicator of relative card payments. Examples of categories which were doing well throughout 2020, weekly data



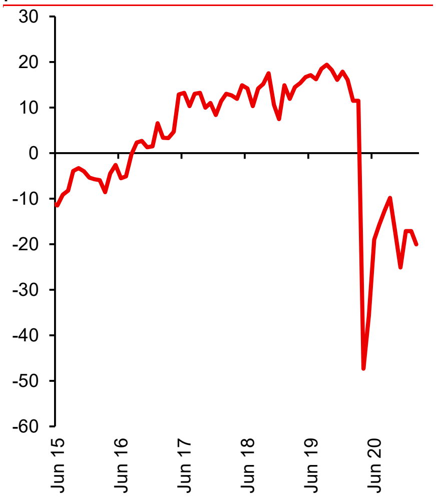
Source: Santander

Chart 7. Indicator of relative card payments. Examples of categories which recorded a rebound after a decline, weekly data



Source: Santander

Chart 8. Consumer confidence about major purchases



Source: GUS, Santander

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.