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Economic Comment

Low base boosted production and sales growth

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Retail sales rose by 21.1% y/y in April, roughly in line with our expectations (21.4% y/y) and below market consensus at 28.5% y/y. In comparison with the corresponding period of 2019, retail sales fell by 6.2% versus an increase by 5.1% in March due to Easter effect and pandemic restrictions (shopping malls were still closed in April). Industrial output rose by 44.5% y/y in April greatly boosted by very low statistical base. It was quite close to market and our expectations. Supply-side issues may have weighed to some extent on the results, but were not strong enough to dampen total growth of output. Big companies reported record-high financial results in 1Q21, with strong improvement of revenues and rebound in investment. Business environment remains strong.

Retail sales improved in annual terms, but deteriorated vs 2019

Retail sales rose by 21.1% y/y in April, roughly in line with our expectations (21.4% y/y) and below market consensus at 28.5% y/y. While the annual growth rate looks impressive, it results from low base effect from April 2020, when the country was in deep lockdown, so we prefer to compare current sales to the 2019 level to get rid of this effect. In comparison with the corresponding period of 2019, retail sales fell by 6.2% versus an increase by 5.1% in March.

Sales in April were undermined by two factors: closing of shopping malls in mid-March and by timing of Easter (2021: 4 April, 2019: 21 April), which encouraged to buy food items in March. The upshot was a clear deterioration of categories connected to shopping malls, such as clothing (-36% vs April 2019 from -3% in March) or furniture/household appliances (-9% vs April 2019 from +15% in March), and to food: food sales (-8% vs April 2019 from +5% in March), sales in non-specialized shops (+28% vs April 2019 vs +37% in March).

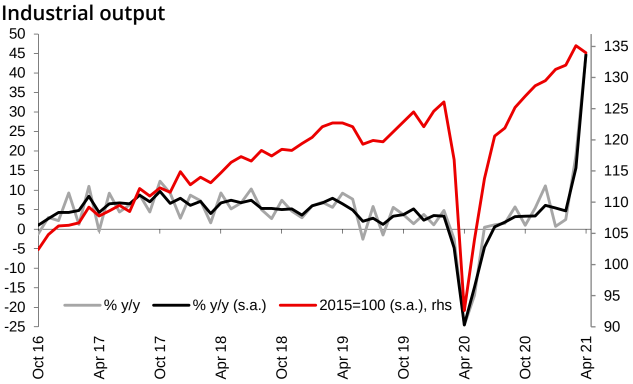
Renewed restrictions supported the internet sales, which jumped to 10.8% of total sales in April from 9.5% in March. Internet sales in current prices rose by 6.2% m/m even though total retail sales declined by 6.7% m/m. Most considerable gains were observed in clothing and furniture / household appliances.

We are expecting retail sales to improve in May (when comparing with 2019, while annual growth rate could go down), as this month saw a gradual loosening of restrictions. We think that retail sales will remain robust in the months to come, given the sound labour market situation.

Industrial output still well above pre-pandemic level

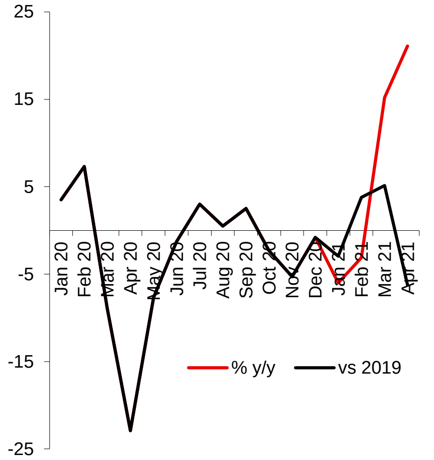
Polish industrial output rose by 44.5% y/y in April, greatly boosted by very low statistical base (-24.6% y/y in April 2020, the worst month for the industry sector in the pandemic). The April reading is quite close to market expectations (+45% y/y) and our estimate (+43.6% y/y). In seasonally adjusted term output declined by 0.4% m/m, but its level was still 6.3% higher than in the final month before the pandemic.

Industrial output



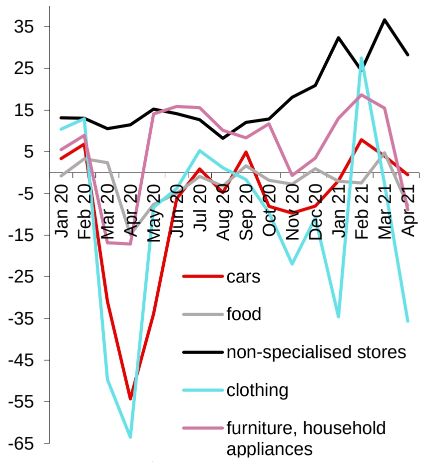
Source: GUS, Santander

Retail sales, annual growth rate and growth rate vs 2019



Source: GUS, Santander

Retail sales breakdown, growth rates vs 2019



Source: GUS, Santander

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Compared to April 2019 we see a rise of c.9% for total output. In the parts of industry that have benefitted the most from demand changes caused by the pandemic (electronics, electrical equipment) the growth rates vs April 2019 was close to 50%, but in car manufacturing it was close to zero (at least one car plant was closed during April due to lack of necessary input).

Consumer durable goods production was up 28.1% vs the level from April 2019 while intermediate goods were +17.1% and investment goods +2.7%. Similar to previous business cycles, as the recovery in Europe is progressing, Polish intermediate goods industries are seeing more demand. Investment goods demand is relatively weak but this component of total output should contribute more at a later stage of the recovery.

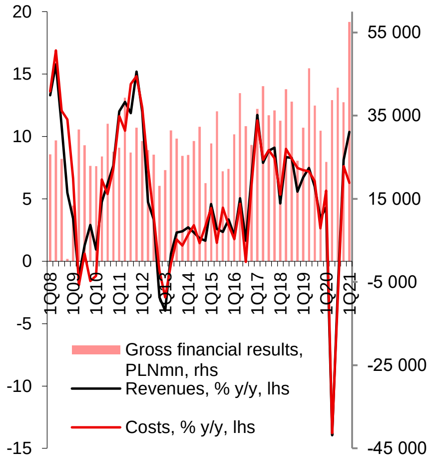
What we read from this is that the business environment remains strong. Supply-side issues may have weighed to some extent on the results, but were not strong enough to dampen total growth of output. Production growth in the coming months will be still affected by very low base effect (May print may be around 25% y/y, June could still be above 10%), but in 2H the pace may return to 5% y/y or even less.

Big companies' financial results at record high in 1Q, investment up

Financial results of companies employing 50 and more people in 1Q21 proved very optimistic. Revenues rose by 10.4% y/y (and by 15.1% vs 1Q19), while gross financial results reached an all-time high at PLN57.5bn after jumping by 140.6% y/y and 79.1% vs 1Q19. Gross financial margin reached 6.6% and this was the highest reading in 10 years. These numbers confirm our claim that Polish companies survived the pandemic in a quite good shape and this is positive for labour market and investment outlook.

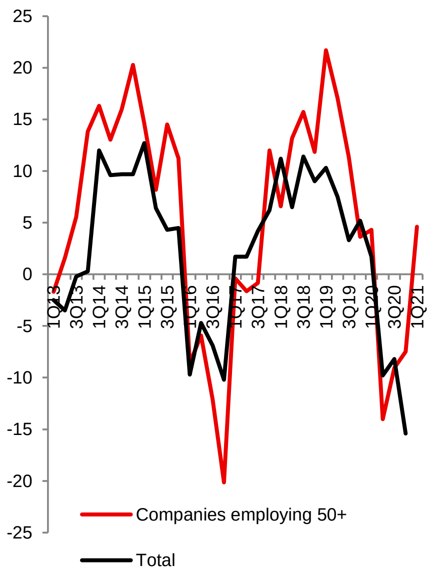
Interestingly, investment in the biggest companies rose by 4.6% y/y in 1Q21, driven by investment in transport (+30.6% y/y), machinery (+8% y/y), while investment in buildings declined by 7.9% y/y. Details show that the investment data is a mixed bag, with major improvement in real estate management, transport and storage, construction and IT, but deterioration in manufacturing or trade. Still, we think that the data suggest an imminent rebound in total investment.

Financial results of companies employing 50+



Source: GUS, Santander

Investment in biggest companies and total in the economy, % y/y



Source: GUS, Santander