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Economic Comment

Strong April sales, investments down and unemployment up in 1Q

Bartosz Białas , tel. +48 517 881 807, bartosz.bialas@santander.pl
Piotr Bielski , tel. +48 691 393 119, piotr.bielski@santander.pl
Grzegorz Ogonek, tel. +48 609 224 857, grzegorz.ogonek@santander.pl

In April, Polish retail sales in constant prices recorded a growth of 7.6% y/y against market consensus of 3.4% y/y and our 2.8% y/y forecast. The seasonally adjusted data showed a rise by 3.5% m/m. The strong data came after two months of negative, sub-consensus prints. The April retail sales reading may generally make the MPC less inclined to deliver rate cuts this year and push back the timing of when the next monetary easing will occur. We do not rule out that the MPC will consider a 25bp cut in July when the new NBP staff projection will be available but at the same time we have growing doubts that the MPC might postpone the delivery of the rate cut until after the summer holidays. According to the preliminary results of the Labour Force Survey, the unemployment rate rose in 1Q25 to 3.4% form 2.8% in 4Q24 and 3.1% a year before - although in principle this is a fairly clear signal of a weakening labour market, it is not yet confirmed by other indicators, so we approach it with caution.

Gross financial result of non-financial enterprises employing 50 or more persons equalled PLN53.3bn in 1Q25 and was 13.9% higher than in 1Q24, marking the first year-on-year increase after six months of declines. Their investment outlays declined 3.6% y/y in 1Q25 after falling 8.4% y/y in 4Q24 and 7.8% y/y over the whole 2024. Given the modest investment outlays of nonfinancial companies and the earlier information about solid investments in the municipal sector, we feel safe with our forecast of total fixed investment growth or around -2% y/y in 1Q25.

In April, retail sales made up for two months of negative y/y growth

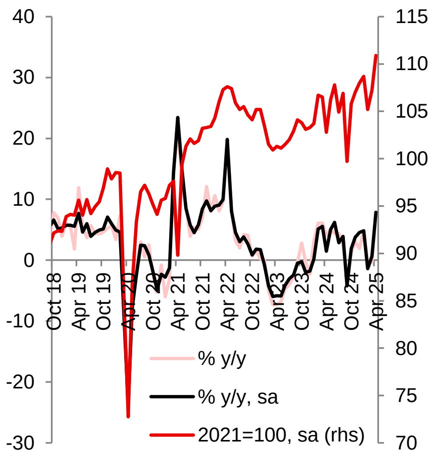
In April, Polish retail sales in constant prices recorded a growth of 7.6% y/y against market consensus of 3.4% y/y and our 2.8% y/y forecast. The seasonally adjusted data showed a rise by 3.5% m/m, coming after +1.9% m/m in March, which resulted in annual SA growth of 6.4%. The previous two readings of retail sales were negative in terms of real y/y growth, -0.5% y/y in February and -0.3% y/y in March, and while both were worse than expected, in case of the March one we warned not to treat the data as unambiguously negative.

The remarkable rebound in April was observed practically in all categories, i.e. for each one the result beat our estimate. The categories with the largest increase in contribution to headline retail sales growth were food and non-specialised stores (we estimate the latter as the residual category, it is not shown in the published table), which shows that the Easter effect played an important role here (Easter-related shopping coming in April this year but in 2024 in March). While aware of this statistical effect we still underestimated the scale of the improvement. We were also surprised by a 14.9% y/y growth in the volume of car and car part sales, as well as furniture and household appliances (up 13.2% y/y). The durable goods categories taken together were up 14.1% y/y. The remaining categories (non-durables and semi-durables) rose by 6.5% y/y, having declined in March by 3.8% y/y.

The strong reading of retail sales, also when it comes to durable goods, came despite record high prints of the indicator of propensity to save in the recent waves of the GUS consumer survey.

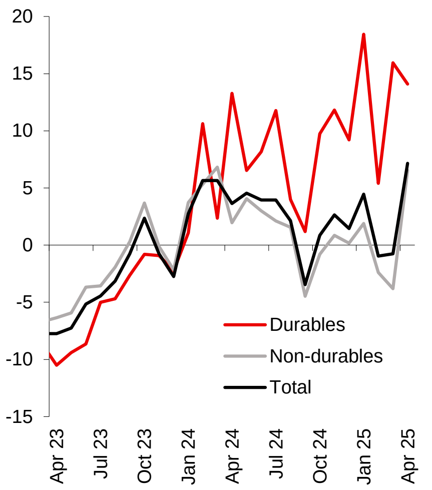
The April retail sales reading may generally make the MPC less inclined to deliver rate cuts this year and push back the timing of when the next monetary easing will occur. It is not the only recent information coming out of the economy suggesting less willingness to cut rates - a rebound in wage growth, an unexpectedly solid industrial production result and improved consumer sentiment may have had a similar impact. The Council has clearly suggested that, having adjusted rates down by 50bp in May, it has no intention of considering another cut in June. We do not rule out that the MPC will consider a 25bp cut in

Retail sales in constant prices



Source: GUS, Santander

Retail sales in main categories, % y/y



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 +48 691 393 119
Bartosz Białas +48 517 881 807
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

July when the new NBP staff projection will be available but at the same time we have growing doubts that the MPC might postpone the delivery of the rate cut until after the summer holidays.

Better financial results of large companies, investment outlays still weakened

Gross financial result of non-financial enterprises employing 50 or more persons equalled PLN53.3bn in 1Q25 and was 13.9% higher than in 1Q24, marking the first year-on-year increase after six months of declines. However, the increase resulted mainly from a low base in 1Q24. Compared to the first quarters of 2022 and 2023, when gross financial results exceeded PLN70bn, the gross financial result was c. 26-27% lower in 1Q25.

The year-on-year increase in the gross financial result was the effect of a modest decline in costs, by 0.6% y/y, and no significant y/y change in revenues.

The data also showed that investment outlays of nonfinancial enterprises declined 3.6% y/y in 1Q25 after declining by 2.2% y/y in 1Q24 and by 7.8% y/y over the whole 2024. The decline in investment outlays stemmed from lower spending on buildings (by 5.5% y/y), machines (by 0.4% y/y), and means of transport (by 8.1% y/y).

Given the modest investment outlays of nonfinancial companies and the earlier information about solid investments in the municipal sector, we feel safe with our forecast of total fixed investment growth or around -2% y/y in 1Q25.

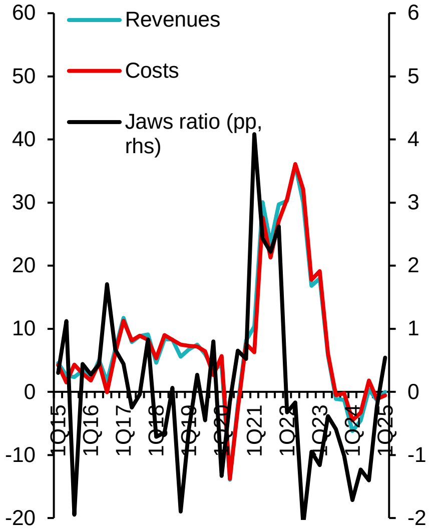
Puzzling large rise of unemployment in 1Q

According to the preliminary results of the Labour Force Survey, the unemployment rate rose in 1Q25 to 3.4% form 2.8% in 4Q24 and 3.1% a year before.

In the first three months of the year, monthly unemployment data published by the Eurostat pointed to a stabilisation of the unemployment rate in the range of 2.8-2.9% and, after seasonal adjustment, to a decline to 2.6-2.7%. The inconsistency between these data is therefore substantial. The inconsistency may in part be caused by the fact that Eurostat's harmonised monthly figures refer to the people aged 15-74, while the unemployment rate published today by the Polish stats office refers to those aged 15-89. Still, the data released today also showed a marked increase in the number of unemployed in the 15-74 age group (+7.3% y/y) and a decrease in the number of employed (-0.9% y/y).

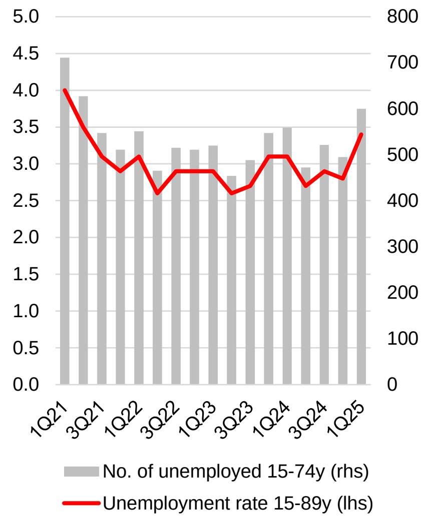
It is possible that this heralds a backward revision of the time series based on the Labour Force Survey. Although in principle this is a fairly clear signal of a weakening labour market, it is not yet confirmed by other indicators, so we approach it with caution. For the time being, it is difficult to draw far-reaching conclusions from the new piece of data.

Revenues and costs of non-financial enterprises, % y/y



Source: GUS, Santander

LFS unemployment



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.