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Economic Comment

Sales up less than expected, good prospects

Piotr Bielski, +48 691 393 119, piotr.bielski@santander.pl
Adrian Domitrz, tel. +48 571 664 004, adrian.domitrz@santander.pl
Marcin Luziński, tel. +48 510 027 662, marcin.luzinski@santander.pl

Today's data proved slightly worse than expected. Retail sales rose by 6.4% y/y in September, slightly slower than our forecast (7.3% y/y). Seasonally adjusted figures showed a decline of 0.6% m/m. The business confidence survey for October showed an improvement in sentiment among a large portion of companies, while the consumer survey was somewhat disappointing after the strong optimism seen in September. The NBP survey of companies also indicated a slight improvement in business conditions in the past quarter. The final element of the morning's data was the agricultural product purchase price index, which recorded a decline in growth to 9.8% y/y in September from 11.8% y/y in August. Despite the weaker-than-expected sales reading, we still believe the outlook for private consumption remains good.

Retail sales slightly below forecasts

Retail sales rose by 6.4% y/y in September, slightly slower than expected (our forecast: 7.3% y/y, market forecast: 7.2% y/y). Seasonally adjusted figures showed a decline of 0.6% m/m.

Let us recall that the acceleration from 3.1% y/y in August was mainly due to the low base effect of September 2024. At that time, almost all categories surprised to the downside, although food and fuel, i.e. non-durable goods, were the most affected. Now, the downward deviation versus our forecast was due to a relatively weak rebound in sales of non-durable goods, which showed an increase of 4.6% y/y compared to 1.6% y/y in August. Food sales rose by 2.0% after a 3.4% y/y decline in August, sales in non-specialised stores rose by 6.0% y/y after a 2.6% y/y increase in August, and fuel sales expanded by 7.1% y/y after 6.1% y/y in August. Durable goods, in turn, accelerated to 15.5% y/y from 11.7% y/y, including car sales to 15.0% y/y from 9.4% y/y, and sales of household appliances o 16.1% y/y from 13.9% y/y.

Despite the weaker-than-expected reading, we still believe that the outlook for private consumption remains sanguine, mainly due to positive growth in real disposable income, low unemployment, consumer optimism (although it deteriorated in October, details below) and strong sales of durable goods.

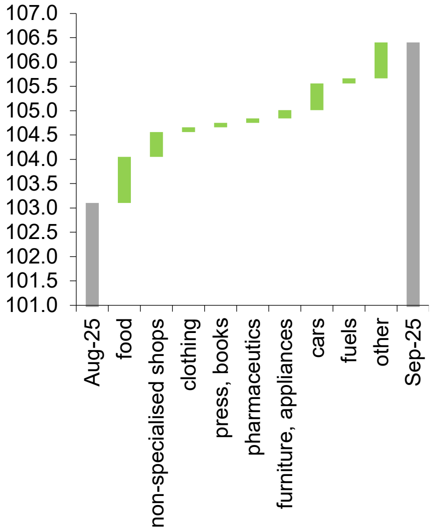
Sentiment among most companies slightly up

The business confidence survey for October showed that in seasonally adjusted terms half of surveyed sectors reported improvement of overall sentiment, and the other half got worse. What is important, despite being still in red, the indicator rose in the biggest sectors: in industry (from -6.6 to -6.0 pts) and in retail trade (from -2.7 to -1.5). In wholesale trade confidence index improved marginally by 0.1 pts, while among IT companies by 0.6. The other sectors felt worse-off in October, especially restaurants and accomodation (index fell by -2.2 pts), transport (-1.4 pts), finance and insurance institutions (-1.3). In general, the above business sentiment indicator readings are consistent with the continuation of solid economic growth in the fourth quarter, which in our opinion may be close to 4% y/y.

Consumer sentiment corrected downwards

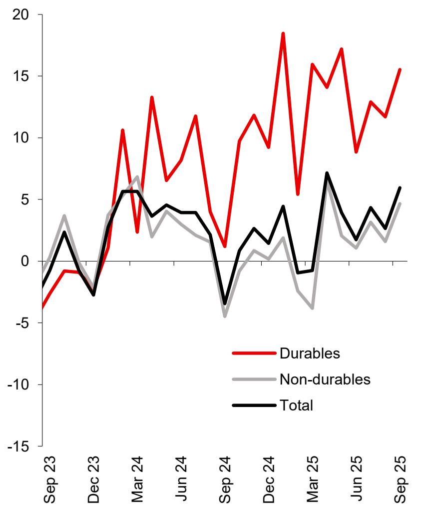
Polish consumer confidence slightly deteriorated in October according to the GUS survey. Current situation indicator fell 2.6 pts to -10.9 pts, while the leading one fell 2.3 pts to -4.3 pts. Both the assessment of the households' past and future situation, as well as the assessment of the country's economic situation, have deteriorated. The latter may be particularly related to the increased Polish airspace violations by Russia in mid-September, which were not captured by the previous wave of the survey. A positive element is the

Breakdown of change in annual growth rate of retail sales, corresponding period of the previous year = 100



Source: GUS, Santander

Retail sales, % 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
Adrian Domitrz +48 571 664 004
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

indicator of making important purchases, which has improved and remains at one of the highest levels in recent years. In our opinion, today's weaker reading does not significantly impact the outlook for consumption, which is growing at a good pace.

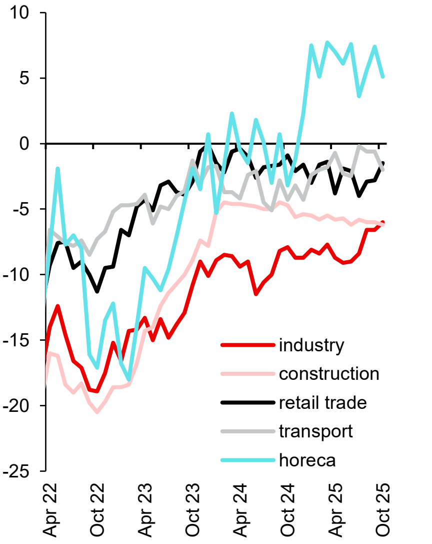
NBP Quick monitoring: slight improvement in economic conditions with no wage pressure

The results of the quarterly NBP Quick Monitoring survey in 3Q25 indicate a slight improvement in economic conditions in the enterprise sector and expectations of further improvement. Companies became more optimistic about domestic demand, while the outlook for exports deteriorated. In most markets, companies reported a reduction in the supply-demand gap (negative demand gap). The report noted an increase in corporate debt, greater demand for loans and increased availability of bank financing. Companies reported an increase in investment expenditure, and the investment optimism index remained above the long-term average. Employment forecasts (mainly among SMEs) and projected wage increases deteriorated slightly, and the share of companies experiencing wage pressure decreased, although in 2Q25 companies reported an acceleration in wage growth and the first increase in employment in over a year. The scale of expected price increases also decreased. Overall, the survey results suggest a scenario of gradual economic recovery without significant wage and price pressures, which is positive from the central bank's point of view

Agricultural product prices slowly falling

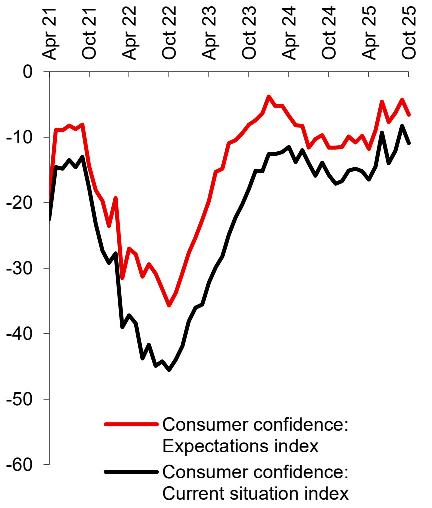
Purchase prices for agricultural products fell by 0.7% m/m in September, and the annual growth rate fell to 9.8% y/y from 11.8% y/y in August. On a monthly basis, cereals, potatoes, milk and pigs became cheaper. Over the last four months, three of them recorded monthly price declines, which in our opinion suggests a slowdown in food price growth in the coming months. It is worth noting that the aggregate measure of agricultural product prices does not include the prices of vegetables and fruit, which fell sharply in September due to favourable harvests.

Sectoral business sentiment indices, SA, pts



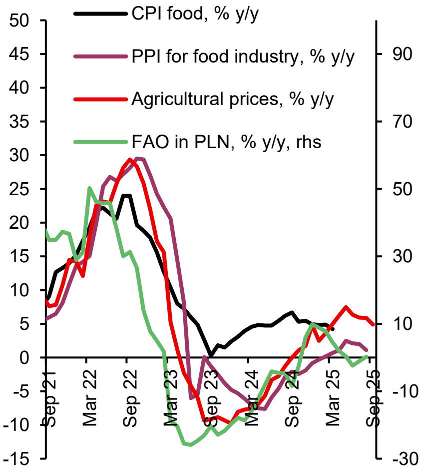
Source: GUS, Santander

Consumer confidence indices, pts



Source: GUS, Santander

Food price measures, % y/y



Source: GUS, FAO, Santander