Economy and Financial Markets
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Poland Economics View

Lower households savings to lift consumption

- ***Our take:*** *We expect a sharp drop in household saving rate as the economy reopens after pandemic restrictions. This trend is likely to be supportive for private consumption in the coming quarters and we see upside risks to our already optimistic consumption forecast.*

- **Household saving rate likely to fall** — Household saving rate rose in 2020 but we expect it to fall in 2021 in an initial reaction to economic reopening. We think it will stay above the long term average for some time due to precautionary motives and tight labour market. Meanwhile, Polish Deal new government economic program and demographic profile could lower household saving rate in the next years.

- **Household investments to remain solid** — Household purchases of dwellings have not been significantly affected by the pandemic. Substantial rebound in building permits and house starts signals higher dwellings supply, while demand should be supported by structural long term housing deficit, sound labour market conditions and low interest rates. Despite a rebound in household investment growth, the household investment rate should remain stable or could even decline.

- **Positive impact on GDP growth** — The economic growth boost resulting from a fall in saving rate could be very significant and is not fully reflected in our forecasts (and most likely not in the consensus view). If the saving rate were to drop toward the long term average it could add up to 3pp to GDP growth in 2021 and 0.5-1pp in 2022-2023. This creates upward risks to our already optimistic forecast of approx. 6% growth in consumption this year.

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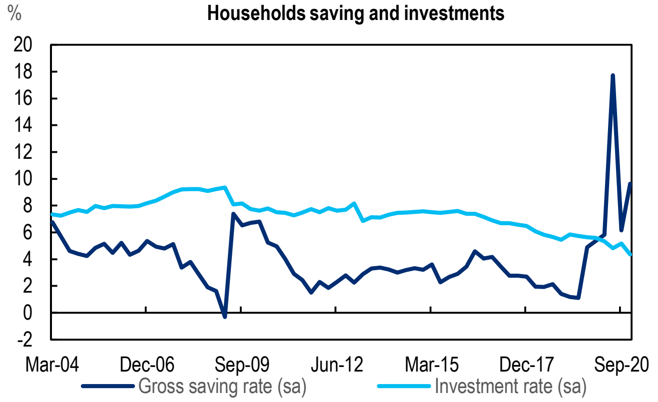
Households resume spending

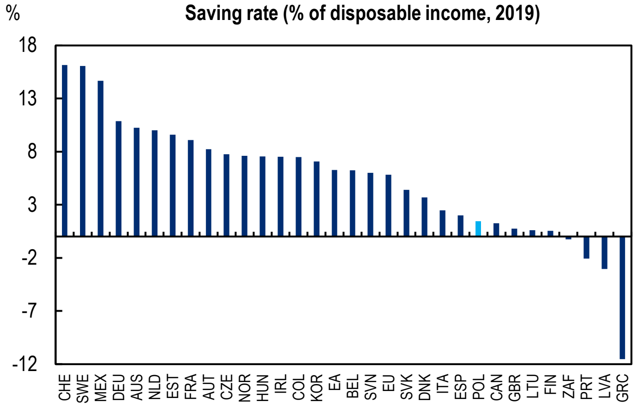
Last year during the pandemic Poland experienced large swings in household saving rate (Figure 1). The key reason behind these changes in 2020 were, like in other EU countries, lockdowns and resulting inability of households to spend. This year's money supply data suggests that saving rate was probably high in the first four months of 2021 as well (i.e. during the period of anti-pandemic restrictions). In our view the current reopening of the economy, which started in May and June, is likely to lead to normalization in consumption and saving behavior of households. How fast this happens is still uncertain but the example of lockdown/reopening periods in 2020 can shed some light into this question.

Figure 1. Large swings in saving rate during lockdowns



Source: CSO, Citi Handlowy

Figure 2. Poland saving rate has been one of the lowest in the EU and OECD for many years

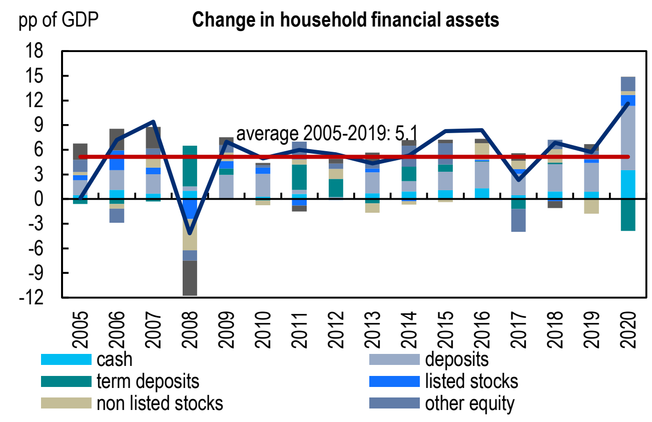


Source: CSO, Citi Handlowy, * % of disposable income

Expected drop in household saving

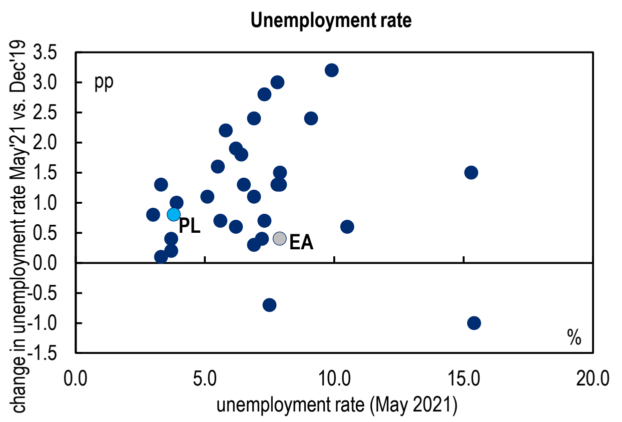
Very fast decline of saving rate that Poland recorded during the temporary lifting of restrictions in 3Q20 probably reflects impatience of consumers and resilience of the labour market. Indeed, despite a recession the unemployment rate hardly changed in 2020 and remained one of the lowest in the EU. Taking into account consumers' behavior in reaction to reopening of the economy in 2020, we think the expected drop in saving rate in 2-3Q may be relatively fast.

Figure 3. Households increased their financial assets in 2020 by 11.6% of GDP, i.e. ~6pp (PLN140bn) more than in 2019



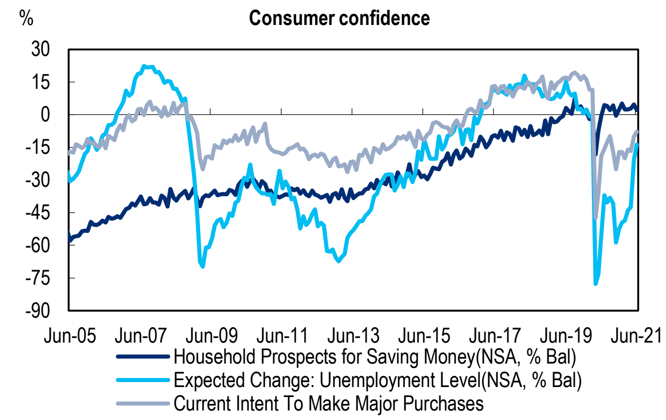
Source: NBP, Citi Handlowy

Figure 4. Unemployment rate remains low even in international comparison



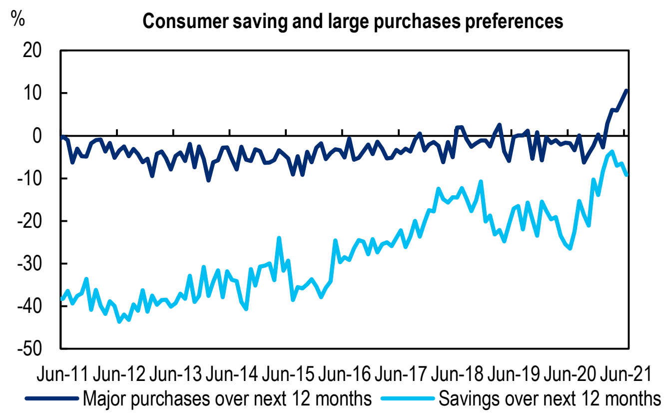
Source: Eurostat, Citi Handlowy

Figure 5. Consumers' ability to save is still high, which reflects improving outlook for the labour market



Source: EU Commission, Citi Handlowy

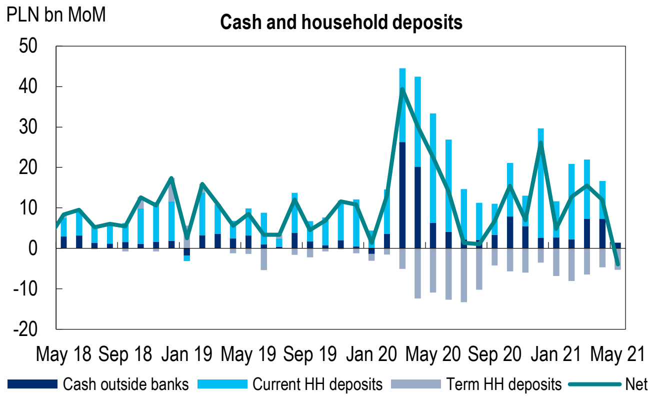
Figure 6. Households show increased willingness to make major purchases while intentions to save started to fall



Source: CSO, Citi Handlowy

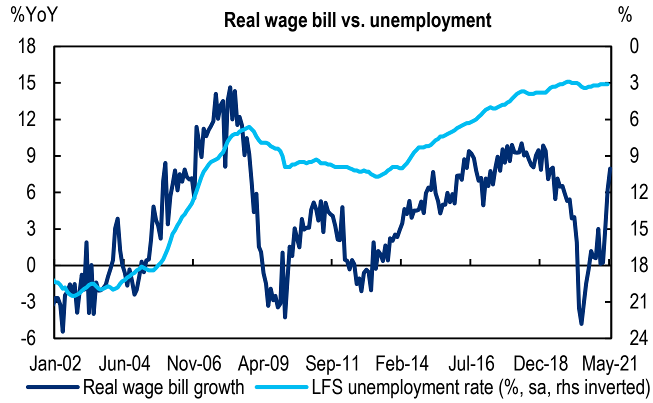
According to our estimates quarterly saving rate could initially record 15-17ppYoY decline in 2Q and stay below long term 3Q average also in 3Q21. This would be also below the relatively elevated prepandemic levels in 2019, when the ratio was backed by quickly rising incomes. A faster drop in saving rate driven by pent-up demand would be possible thanks to accumulated large excess savings (6-10% of GDP), but also due to record low deposit rates, as historically there has been positive correlation between interest rates and a saving rate. Our view seems to be confirmed by high frequency data as the first reaction of consumers to economic reopening in May was already reflected in a large drop in households deposits (~PLN -5bn, 1.4% of disposable income).

Figure 7. May data saw a drop in household deposits amid reopening of the economy



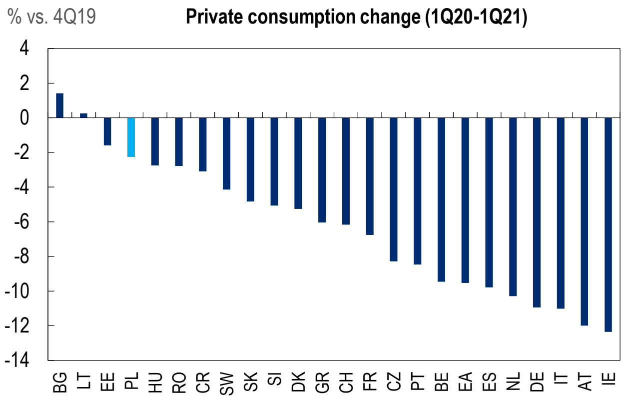
Source: NBP, Citi Handlowy

Figure 8. Real wage bill growth rebounded, while unemployment rate stayed very low



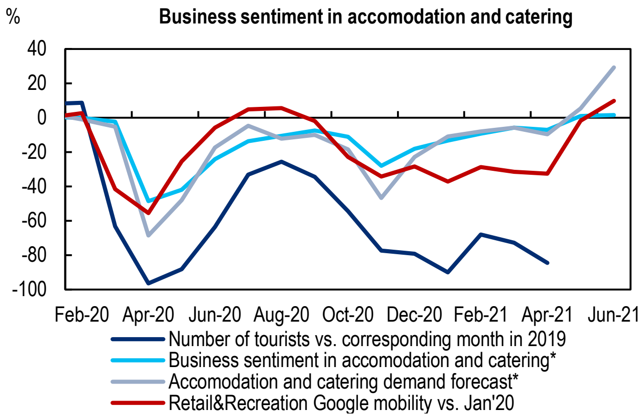
Source: CSO, Citi Handlowy

Figure 9. Private consumption in Poland has performed better than in the rest of the EU, driven by strong durable goods sales and a small share of tourism in the economy



Source: Eurostat, Citi Handlowy

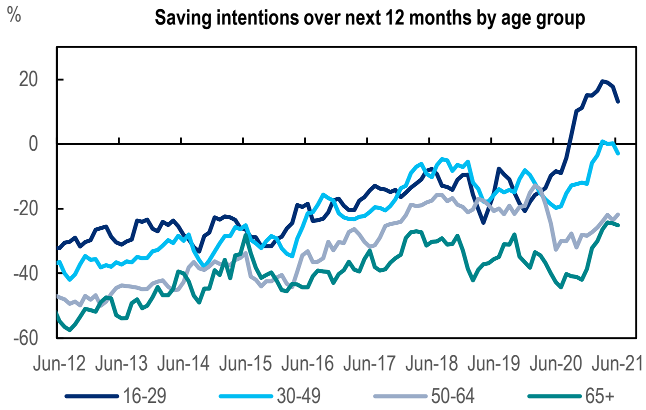
Figure 10. We expect solid rebound in those categories of services that were most hit by restrictions



Source: CSO, Citi Handlowy, *EU Comission business and consumer survey

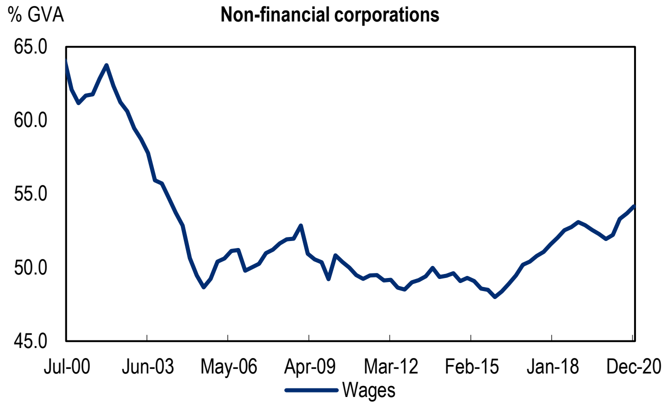
After this initial drop in 2-3Q, changes in saving rate in following quarters appear more uncertain to us. We think structural factors like demography and the new economic program of the government (so called *Polish Deal*) will likely weaken households' savings in the coming years. In theory population aging should result in lower gross savings and the recent CSO data seems to confirm this assumption, as the propensity to save among the oldest group of households in Poland has been relatively low (see Figure 11). Therefore, Poland's demographic profile might contribute to lower saving rate in the future. Moreover, since consumers from higher income deciles usually exhibit higher saving rate, we think the government's Polish Deal program, which aims to increase tax progression, will likely lead to lower total household savings and higher consumption.

Figure 11. Saving intentions are lower for retirees



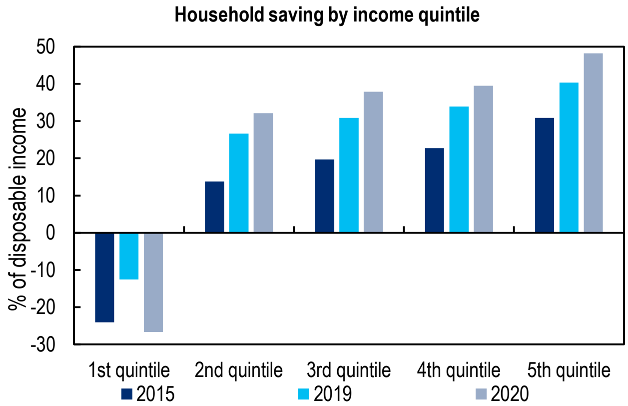
Source: CSO, Citi Handlowy

Figure 12. Fast wage growth, which boosts the share of wages in value added, may limit the drop in saving rate



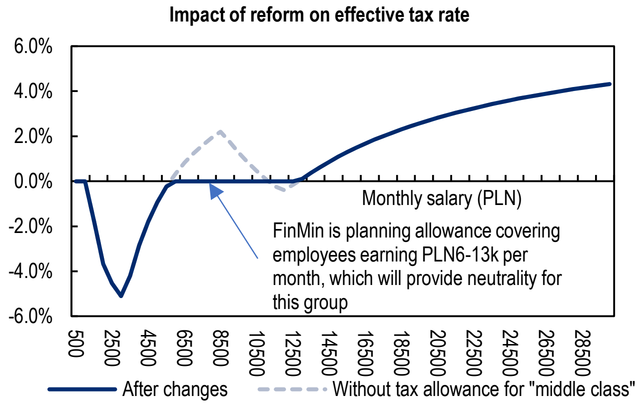
Source: Eurostat, Citi Handlowy

Figure 13. Household gross saving has been increasing along with income, and highest savings during pandemic were recorded in the higher income quintiles



Source: CSO, Citi Handlowy, *saving rate calculated as disposable income less spending per person in household divided by disposable income

Figure 14. Polish Deal economic program will likely result in lower saving rate as it will increase tax burden on top earners who tend to save more



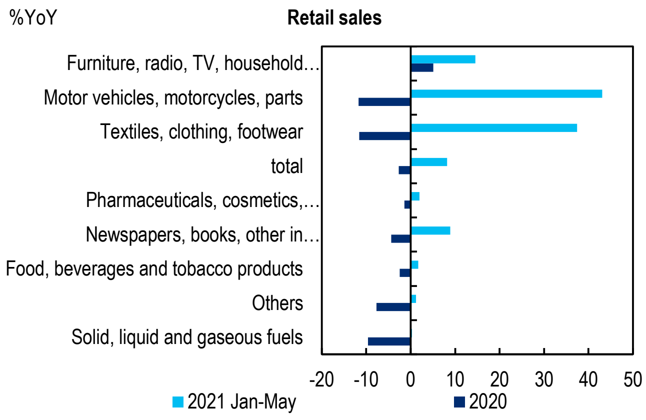
Source: CSO, Citi Handlowy, KPRM, Ministry of Finance

However, the negative impact of these structural factors will be at least partially offset by supportive cyclical factors. In our view saving rate will be backed by sound labour market situation, with strong wage growth (we expect ~8% growth in corporate wages in 2021-2023) and rising share of wages in GDP/gross value added (Figure 12). Due to the potential fourth pandemic wave we think precautionary reasons could also play some role in keeping the saving rate higher. Taking into account these factors we think saving rate could stay above the long term average for some time after the reopening of the economy and realization of pent-up demand.

Gradual switch from durables to services

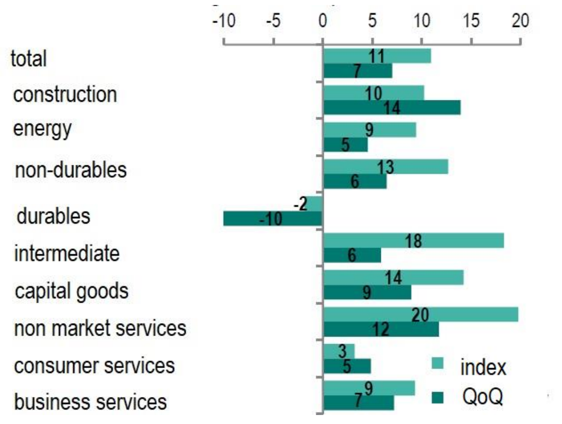
Amid economic reopening we expect continued strength in durables consumption at least for next several months and a rebound in consumption of services. In our view stronger spending on services should be possible especially during the summer but also during potential 4th epidemic wave, which could be less severe in economic terms than previous waves, mainly due to vaccination program. In our view better adjustment of consumers and companies to restrictions and online trade will likely support retail sales and consumption of goods even when the number of COVID infections starts to rise again. However, over time we expect demand for durable goods to weaken, especially when the pandemic situation improves.

Figure 15. Durable goods sales was the strongest category driving private consumption since the start of pandemic



Source: CSO, Citi Handlowy

Figure 16. Annual demand forecasts (NBP)

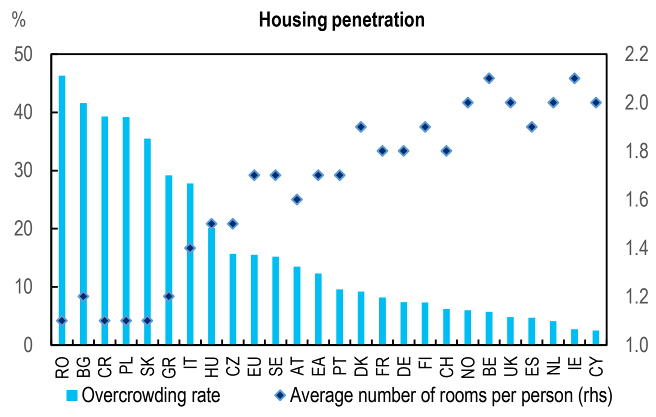


Source: Citi Handlowy, NBP

Household investment to recover as well

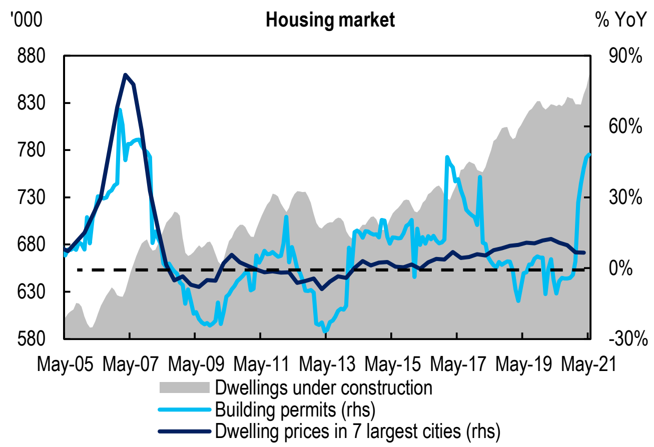
Cyclical recovery and structural factors will positively contribute to household investments. We expect that in the next few years household investments will be supported by stable demand for dwellings amid structural housing deficit. According to Eurostat data the number of apartments and rooms per inhabitant in Poland remains at one of the lowest levels in the EU. This to large extent explains relatively stable investments in dwellings as well as only limited slowdown of mortgage loans growth throughout pandemic.

Figure 17. Low housing penetration in Poland suggests solid household investments in dwellings in the next decade



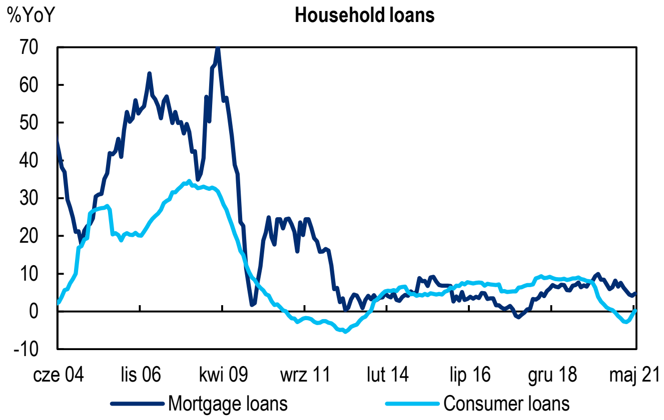
Source: Eurostat, Citi Handlowy

Figure 18. Rebound in building permits signals higher supply in the coming quarters



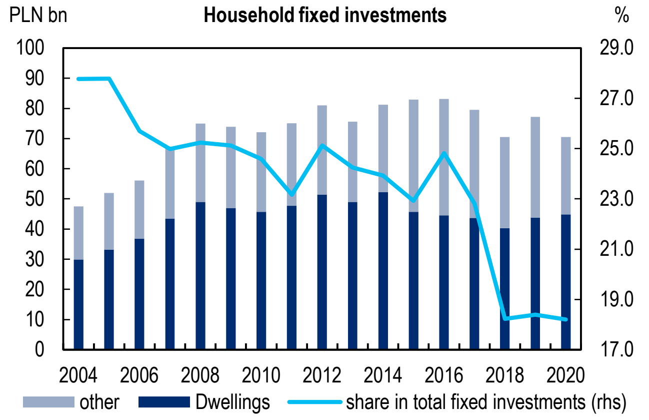
Source: CSO, NBP, Citi Handlowy

Figure 19. We expect recovery in household consumer and mortgage loans



Source: NBP, Citi Handlowy

Figure 20. Households' fixed investments will likely remain solid in the coming years



Source: Eurostat, Citi Handlowy

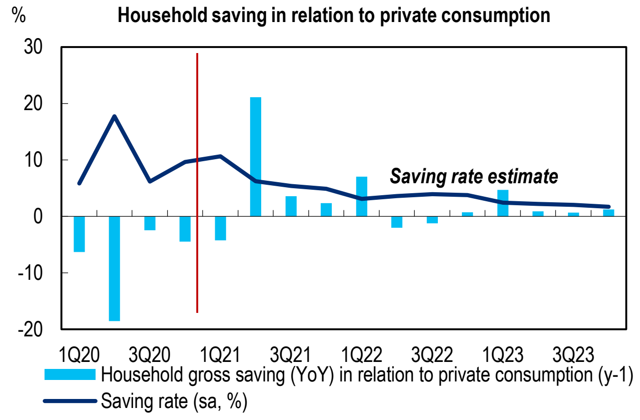
Boost to growth

All in all, partial reduction of accumulated savings along with dynamic increase in wages and recovery in employment will translate into a strong rebound in consumer spending. Our forecast assumes robust 5.5-6% real growth in private consumption in 2021-2022 but we think our forecast may even understate the strength of the recovery in consumer spending.

The post-pandemic adjustment will be a complicated process but based on arguments described in previous sections of this note we estimate a mere drop in saving rate to the long term average (3.6%) could generate a very noticeable contribution to GDP growth – reaching even ~3pp to GDP in 2021. Other factors supportive for consumption include a rebound in consumer loans growth (potentially adding 0.3pp to GDP growth) or fiscal stimulus under the Polish Deal program (another 0.4-0.5% points in 2022). And all these impulses would come on top of already strong real wage growth.

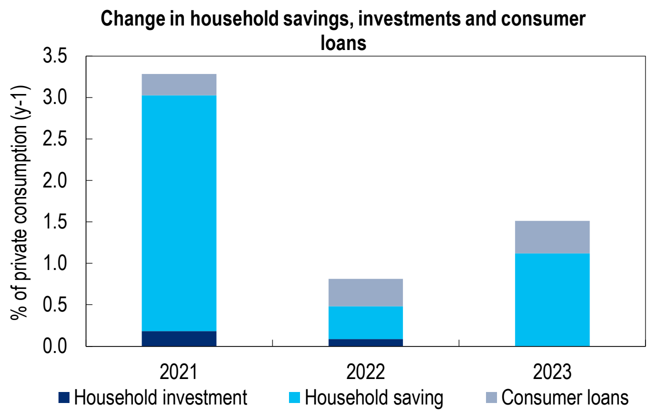
Having said that, we see room for upside surprises to our 5.5-6% consumption growth forecast in 2021-2022. If such a more optimistic scenario were to materialize, this would imply stronger upward pressure on inflation, pushing it even further from the NBP target in 2022-2023. This would also strengthen pressure on the central bank to embark on the tightening process, something the MPC would like to avoid for now.

Figure 21. Reversal in saving rate may add ~3pp to GDP growth in 2021 and ~0.5-1 pp in 2022-2023



Source: Eurostat, Citi Handlowy calculations and estimates

Figure 22. We expect smaller impact from a rebound in household consumer loans and investments



Source: Eurostat, CSO, Citi Handlowy estimates

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