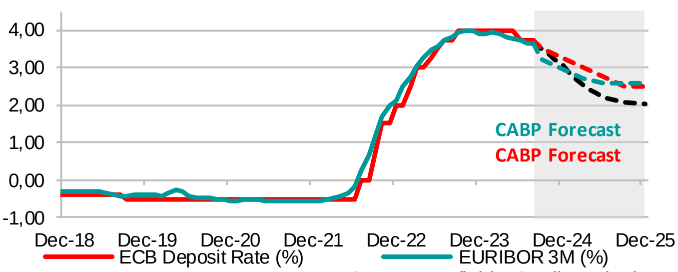
Improving sales outlook for furniture industry

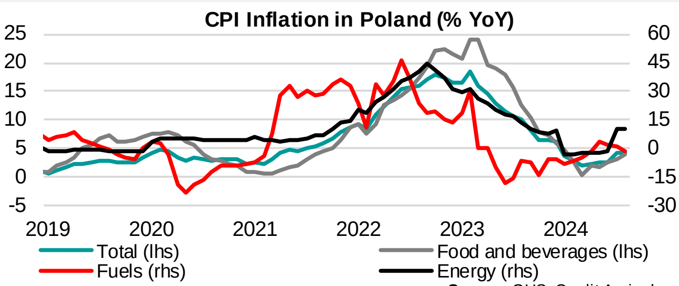
This week

- **The key event this week will be the ECB meeting planned for Thursday.** We expect the ECB to cut interest rates by 25bp. Consequently, the key interest rate will stand at 4.00%, while the deposit rate will go down to 3.50%. We think that during the press conference after the meeting the President of the ECB Ch. Lagarde will most likely announce the continuation of the monetary policy easing in the coming months. Our scenario assumes that the ECB will be cutting interest rates by 25bp every quarter until the deposit rate reaches 2.50%. The ECB will also release its macroeconomic projection in September. We expect a slight downward adjustment to their inflation forecast for 2024-2025, mainly due to the lower starting point. We may observe an increased volatility in financial markets during the press conference after the meeting.



Source: Refinitiv, Credit Agricole

- **China's foreign trade figures will be released on Tuesday.** The market expects China's trade balance to have shrunk from USD 84.7bn in July to USD 83.9bn in August. At the same time, the Chinese exports and import growth slowed down between July and August in line with market consensus, from 7.0% YoY to 6.5% YoY and from 7.2% to 2.0%, respectively, indicating at a slowdown in activity in the foreign trade. Data will be an important source of information, making it possible to assess the recovery prospects for the Chinese economy and trends in the global trade as well as the likelihood of triggering further steps in the fiscal and monetary policy to stimulate the economic growth. In our opinion, the data from China will be neutral for financial markets.
- **Some important data from the US will be released this week.** We forecast that the headline inflation fell from 2.9% YoY in July to 2.5% in August, while core inflation did not change between July and August, standing at 3.2% YoY. Therefore, the data will give the FOMC another argument in favour of cutting interest rates in the September meeting. We believe that the preliminary University of Michigan index (67.5 pts in September vs. 67.9 pts in August) will show that household sentiments have worsened again. In our opinion, the data from the US will be neutral for financial markets.
- **Final data on inflation in Poland will be published on Friday.** In accordance with the flash estimate published by the GUS, inflation went up from 4.2% YoY in July to 4.3% in August, driven primarily by a stronger growth in the prices of "food and non-alcoholic beverages" and "energy", while an opposite impact came from a slower growth in the prices of "fuels". Given the preliminary data published by the GUS, we estimate that core inflation did not change between July and August, and stood at 3.8%. In our opinion, final inflation data will be neutral for the PLN and the yields on Polish bonds.



Source: GUS, Credit Agricole

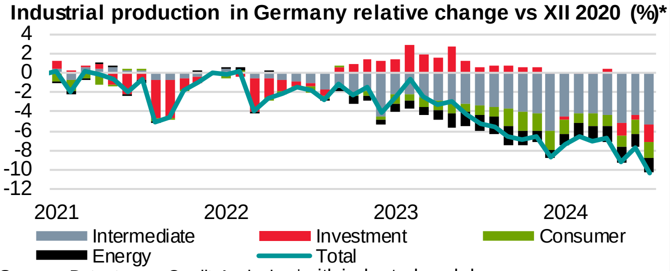
- **Data on Poland's payment balance will be released on Friday as well.** We expect to see that the current account balance deficit in July reached EUR 786m (in June, there was a surplus of EUR 588m). We forecast that growth accelerated both in the case of exports (4.4% YoY in July vs. -6.0% in July) and imports (8.7% vs. -0.2%), largely due to favourable calendar effects. In our opinion, the balance of payments figures will be neutral for the PLN and yields on Polish bonds.

Last week

- **Last week, the Monetary Policy Council took a decision to keep interest rates unchanged (with the NBP reference rate standing at 5.75%).** The MPC's decision was consistent with the market consensus and our forecast. The Council maintained its assessment that despite the observed economic recovery, demand and cost pressures in the Polish economy remained relatively low, which amidst weakened economic conditions and lower inflation pressure abroad curbed domestic inflation pressure (see MACROpulse of 04/09/2024). The press release following the meeting also reiterated the Council's assessment regarding future interest rates, which will depend on incoming information about inflation prospects and economic activity. NBP Governor A. Glapiński also held his usual press conference last week. He said that it was likely that inflation would not return to the target before 2026 when the effects of the discontinuation of the protective measures introduced to curb the growth of energy prices wane. However, he implied that a potential rate cut could occur before the inflation target was reached. According to him this could happen after Q2 2025 and potentially even earlier under favourable conditions. He believes that such a decision could be justified by a growth in real interest rates that would hinder economic activity. The wording of the press release after the MPC meeting and the NBP Governor's comments support our scenario assuming that the first interest rate cut will occur in Q3 2025.
- **Some significant data on the US economy was released last week.** Non-farm payrolls rose by 142k in August vs. 89k in July (downward revision from 114k), running below market expectations (160k) and our forecast (165k). Consequently, in August, the 3-month moving average for the employment growth in the US reached the lowest level since the pandemic. The strongest increases in employment were seen in education and health services (+47.0k), leisure and hospitality (+46.0k), and construction (+34.0k). In turn, the strongest drop in employment was seen in manufacturing (-24.0k), retail trade (-11.1k) and information services (-7.0k). The unemployment rate fell from 4.3% in July to 4.2% in August, running in line with market expectations and our forecast. Therefore, unemployment in the US has remained above the natural rate of unemployment, which is assessed by the Fed to be 4.0%, for the third month running. The labour force participation rate did not change between July and August (62.7%), but it still remains below the pre-Covid level (63.3%). The hourly wage growth accelerated from 3.6% YoY in July to 3.8% in August. We think it suggests that the wage pressures in the US economy are still elevated. Last week also saw the release of business survey results. The ISM index for manufacturing increased from 46.8 pts in June to 47.2 pts in August, printing below market expectations (48.0 pts), but showing that the business sentiment in the manufacturing sector has slightly improved. The index was driven up by higher contributions of 2 out of its 5 components (employment, inventories), with an opposite impact coming from a lower contribution of new orders, current output and delivery times. Also ISM for services increased from 51.4 pts in July to 51.5 pts in August, printing above the market expectations (51.1 pts). The index was driven up by higher contributions of 2 out of its 4 components (new orders and delivery times), with an opposite impact coming from a lower contribution of the remaining two components (business activity and employment). In our opinion, the data on US labour market published last week is showing a mixed picture. On the one hand, it indicates that the activity in the labour market has been slowing down systematically, but on the other hand, when broken down, the data shows that the unemployment has fallen and the wage growth has got stronger, suggesting that the situation in the labour market is still good. Therefore, we have not changed our scenario, in which the Fed is to cut interest rates in September by 25bp. It is consistent with market expectations, which have not changed after the publication of US labour market data.

Some important data on German economy was released last week. Industrial production shrank by 2.4% MoM in July compared to a 1.7% growth in June (upward revision from 1.4%), running markedly below the market expectations (a 0.3% drop). Industrial production growth was driven down by a slower growth in the manufacturing and energy sectors, while an opposite impact came from a quicker growth in the construction sector. The strongest monthly production drops were seen in the "vehicles, trailers and semi-trailers" (-8.1% MoM), "furniture" (-7.7%) and "electrical equipment" (-7.0%) categories. Production in the energy-intensive branches has also declined (by 1.8% MoM). Consequently, production volumes in energy-intensive branches are approx. 16% below the levels reported just before the outbreak of the war in Ukraine. The drop was seen in all energy-intensive branches: chemical, metal, coke and oil processing, glass, and paper production. Last week, we also saw data on new orders growth in manufacturing, which decreased in July to 2.9% from 4.6% in June (upward revision from 3.9%), printing markedly above market expectations (-1.5%), mainly due to the growth in the number of orders in the "other transport equipment" category (+86.5%), which resulted from large, one-off orders. The number of domestic orders fell while that of export orders went up. The increase in the latter stemmed from the increase in orders from both Eurozone and non-Eurozone countries. Last week also saw the release of data on German foreign trade, whose balance went down from EUR 20.4bn in June to EUR 16.8bn in July, printing markedly below market expectations (EUR 21.0bn). At the same time, the exports growth accelerated (1.7% MoM in July vs. -3.4% MoM in June), and so did the imports growth (5.4% vs. 0.3%), and both printed ahead of market expectations (1.2% and 0.3%, respectively). Combined with the increase in the new export orders, the data is indicative of a marked acceleration in activity in the German foreign trade in July. Given the incoming business survey results, we can see a downside risk to our forecast in which the quarterly GDP growth is to go up from -0.1% in Q2 to 0.3% in Q3, and to accelerate by 0.1% in 2024 vs. a 0.3% drop in 2023.

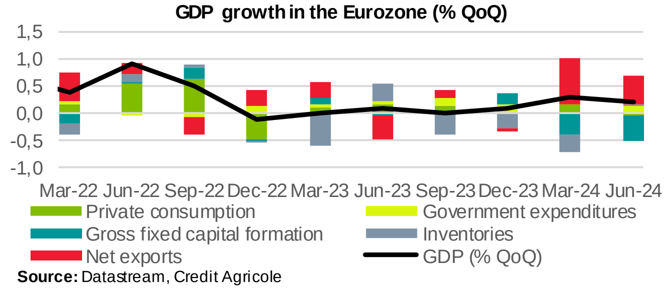
Industrial production in Germany relative change vs XII 2020 (%)*



Source: Datastream, Credit Agricole *with industry breakdown

According to the final estimate, quarterly GDP growth in the Eurozone slowed to 0.2% in Q2 vs. 0.3% in Q1, running below the second flash estimate (0.3%). The Eurozone's GDP grew by 0.6% YoY in Q2 vs. 0.4% in Q1. The drop in the Eurozone's QoQ GDP growth was driven by lower contributions from private consumption, investment and net exports, partially offset by higher contributions from government spending and inventories. Thus, just as in Q1, net exports were the main source of economic growth in Q2. Considering the recent data indicating an unfavourable economic sentiment, we see a substantial downside risk to our forecast that the Eurozone's GDP will grow by 0.8% in 2024 compared to a 0.5% growth in 2023.

GDP growth in the Eurozone (% QoQ)



Source: Datastream, Credit Agricole

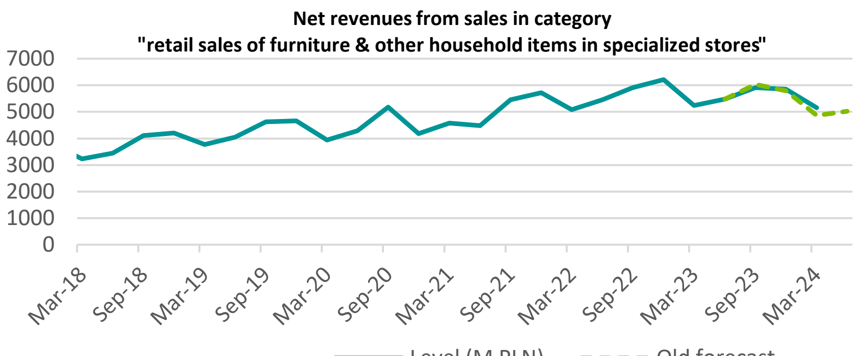
Improving sales outlook for furniture industry

In the MACROmap of 06/11/2023, we presented a forecast concerning the outlook for demand for durable goods in Poland. This analysis revisits that forecast, incorporating updated data that has since become available.

To recap, for the purposes of our analysis, we have approximated households' demand for durable goods using quarterly net revenues from the sale of products, goods and materials in the "retail sale of furniture, lighting equipment and other household articles in specialised stores" category. The data has been provided by PONT Info, and includes companies with at least 50 employees. Demand in this category can be broken down into two components. The first is the demand of households moving into a new house/apartment or undertaking major renovations, and needing to furnish it. The other component is the demand of households buying additional equipment for their house/apartment or replacing their old durable goods with new ones. This approach helps capture a broad spectrum of demand for durable goods.

Our forecast concerning the outlook for households' demand for durable goods was based on an econometric model where we explained the net revenues from the sale of products, goods and materials in the "retail sale of furniture, lighting equipment and other household articles in specialised stores" category using the following variables:

- **Apartments and houses under construction (lagged by 4 quarters).** The purpose of this variable is to approximate the demand for durable goods reported by households moving into a new house/apartment or undertaking major renovations. The more apartments/houses are under construction, the greater the demand for furniture, lighting equipment and other household articles.
- **Consumer loan (lagged by 2 quarters).** This variable approximates the demand for durable goods reported by households financing the purchase of such goods using a consumer loan. Consequently, the stronger the growth of the volume of consumer loans granted, the higher the sales volumes of furniture, lighting equipment and other household articles.
- **EURPLN (lagged by 1 quarter).** The furniture industry in Poland has a high share of export sales in the structure of revenues. Consequently, when the EURPLN rate is rising, Polish exports are becoming more competitive. This, in turn, makes domestic prices grow, which leads to a growth in nominal sales.

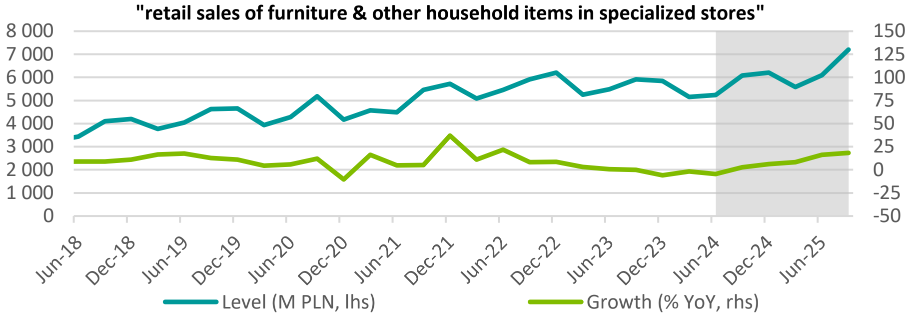


Source: PONT Info, Credit Agricole

The sales trajectory forecasted by us in the "retail sale of furniture, lighting equipment and other household articles in specialised stores," category was, on average, 2% lower than the trajectory that actually materialised. The relatively small discrepancy in our forecast resulted from two opposing factors. Firstly, due to a high level of interest rates in our forecast horizon, we assumed limited growth in new lending in the consumer loan segment, which ultimately turned out to be much more pronounced than we had assumed. The factor driving up new lending was the sustained robust situation in the labour market and a substantial rise in wages. Secondly, the EURPLN exchange rate was lower than we anticipated due to the strong appreciation of the PLN in the last 6 months. This trend was primarily attributable to unlocking EU funds under the National Recovery Plan, as well as a relatively high interest rate environment in Poland compared to other CE-4 counties (see MACROmap of 04/03/2024).

Having analysed the error in our forecast, we reestimated our model. What stands out is the reduced importance of the "apartments and houses under construction" variable and its decreased statistical significance. However, we believe that the disruption of the relationship between the number of apartments and houses under construction and the number of apartments released on the market, which has a direct impact on durable goods, is only temporary and it should regain its strength of influence observed in the past. For this reason, we decided not to modify the specification of our model.

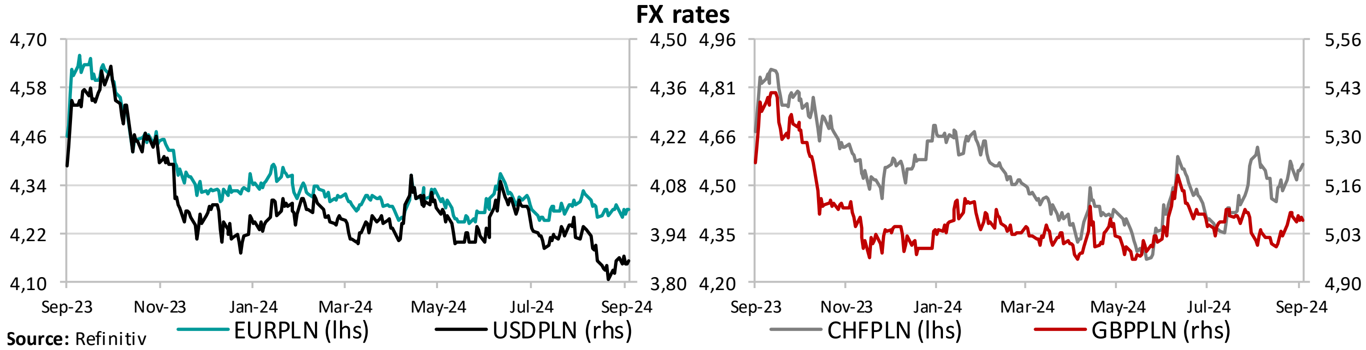
Net revenues from sales in category "retail sales of furniture & other household items in specialized stores"



Source: PONT Info, Credit Agricole

According to our updated forecast, we expect that the coming quarters will bring a gradual increase in net revenues in the "retail sale of furniture, lighting equipment and other household articles in specialised shops" category. This trend will be attributable to the observed marked acceleration in activity in residential constructions and the stronger growth of new lending in consumer loans we assumed. The further appreciation of the PLN relative to the EUR that we forecast will hold back sales in this category as we project the EURPLN to fall to 4.24 at the end of 2024 and 4.20 at the end of 2025. A factor of uncertainty in our forecast is the lack of consensus within the ruling coalition regarding the "Starting Loan" programme (also known as "0% Loan"). The launch of this programme in the coming year would boost activity on the real property market, presenting an upside risk to our forecast regarding retail sales of furniture, lighting equipment and other household articles.

ECB meeting in the spotlight



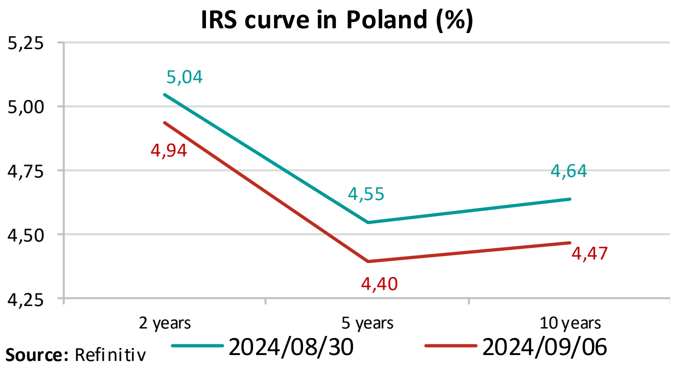
Source: Refinitiv

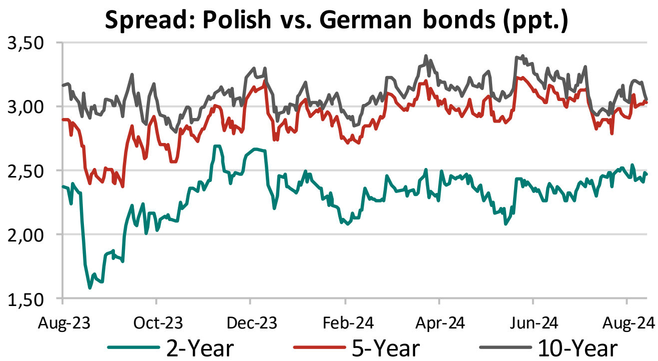
Last week, the EURPLN rate rose to 4.2813 (the PLN depreciated by 0.1%). The EURUSD exchange rate remained relatively stable last week. In line with our expectations, the highest volatility in the PLN's rate was seen during NBP Governor A. Glapiński's press conference.

Last week also saw a strengthening of the EUR against the USD in anticipation of the release of US labour market data. Once released, they did not add to expectations for stronger interest cuts in the US in September and, as a result, Friday saw a correction and slight appreciation of the USD against the EUR.

This week the spotlight will on the ECB meeting planned for Thursday, as it may add to the volatility of the EURPLN rate. We believe that other publications from the Polish and global economies planned for this week will be neutral for the PLN.

IRS rates decline following the core markets





Source: Refinitiv

Last week the 2-year IRS rates decreased to 4.94 (down by 18bp), 5-year rates to 4.40 (down by 23bp), and 10-year rates to 4.47 (down by 22bp). Last week saw a drop in IRS rates following the core markets, a trend supported by growing expectations of interest rate cuts by the major central banks.

This week, the focus will be on the FOMC meeting scheduled for Thursday, which may spur increased volatility in IRS rates. We believe that other data releases from the Polish and global economies scheduled for this week will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
NBP reference rate (%)	6,75	6,00	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75
EURPLN*	4,47	4,63	4,45	4,35	4,33	4,32	4,31	4,29	4,33	4,27	4,30	4,29	4,28	**4,26**
USDPLN*	4,12	4,37	4,21	4,00	3,93	4,00	3,99	3,97	4,06	3,94	4,02	3,96	3,87	**4,02**
CHFPLN*	4,66	4,78	4,62	4,56	4,64	4,64	4,52	4,40	4,41	4,36	4,47	4,50	4,56	**4,44**
CPI inflation (% YoY)	10,1	8,2	6,6	6,6	6,2	3,7	2,8	2,0	2,4	2,5	2,6	4,2	**4,3**	
Core inflation (% YoY)	10,0	8,4	8,0	7,3	6,9	6,2	5,4	4,6	4,1	3,8	3,6	3,8	**3,9**	
Industrial production (% YoY)	-2,2	-3,3	2,0	-0,3	-3,5	3,0	3,2	-5,7	7,8	-1,6	0,0	4,9	**-0,5**	
PPI inflation (% YoY)	-2,9	-2,7	-4,2	-5,1	-6,9	-10,6	-10,0	-9,9	-8,5	-7,0	-5,8	-4,8	**-4,7**	
Retail sales (% YoY)	3,1	3,6	4,8	2,6	0,5	4,6	6,7	6,0	4,3	5,4	4,7	5,0	**4,2**	
Corporate sector wages (% YoY)	11,9	10,3	12,8	11,8	9,6	12,8	12,9	12,0	11,3	11,4	11,0	10,6	**11,0**	
Employment (% YoY)	0,0	0,0	-0,1	-0,2	-0,1	-0,2	-0,2	-0,2	-0,4	-0,5	-0,4	-0,4	**-0,3**	
Unemployment rate* (%)	5,0	5,0	5,0	5,0	5,1	5,4	5,4	5,3	5,1	5,0	4,9	5,0	**5,0**	
Current account (M EUR)	587	1184	2240	1196	165	1584	1722	1357	-13	168	588	**-786**		
Exports (% YoY EUR)	-2,1	-4,0	2,1	-2,0	-6,2	-3,3	1,8	-8,5	6,5	-6,5	-6,0	**4,4**		
Imports (% YoY EUR)	-10,9	-13,8	-7,1	-7,2	-10,6	-4,6	1,7	-7,6	7,0	-1,8	-0,2	**8,7**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland												
Indicator	2024				2025				2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	2,0	3,2	2,1	2,2	3,1	3,3	3,4	3,6	0,2	2,3	3,5
Private consumption (% YoY)	4,6	4,7	3,3	2,9	2,5	2,1	2,0	1,8	-1,0	3,9	2,2
Gross fixed capital formation (% YoY)	-1,8	2,7	-4,1	-5,8	5,5	7,5	8,4	8,7	13,1	-2,9	7,7
Export - constant prices (% YoY)	0,5	3,4	1,5	2,5	5,3	5,7	4,3	7,1	3,4	2,0	5,5
Import - constant prices (% YoY)	-0,1	5,4	4,9	4,7	5,1	5,3	4,3	3,9	-2,0	3,7	4,6
GDP growth contributions: Private consumption (pp)	2,7	2,7	1,9	1,4	1,5	1,2	1,2	0,9	-0,5	2,2	1,3
GDP growth contributions: Investments (pp)	-0,2	0,4	-0,7	-1,4	0,7	1,2	1,3	2,0	2,1	-0,5	1,3
GDP growth contributions: Net exports (pp)	0,4	-0,8	-1,6	-0,9	0,4	0,5	0,2	1,8	3,3	-0,8	0,7
Current account (% of GDP)***	1,5	1,4	1,2	0,8	0,8	0,7	0,6	0,6	1,6	0,8	0,6
Unemployment rate (%)**	5,3	4,9	5,0	5,0	5,3	4,9	4,9	4,9	5,1	5,0	4,9
Non-agricultural employment (% YoY)	-0,2	0,9	0,3	0,1	-0,4	-0,5	-0,5	-0,5	0,8	0,3	-0,5
Wages in national economy (% YoY)	14,4	14,7	14,3	14,2	10,1	8,3	7,1	6,5	12,8	14,4	8,0
CPI Inflation (% YoY)*	2,8	2,5	4,5	5,2	5,5	5,2	3,6	3,4	11,6	3,8	4,4
Wibor 3M (%)**	5,88	5,85	5,86	5,86	5,86	5,61	5,49	5,36	5,88	5,86	5,36
NBP reference rate (%)**	5,75	5,75	5,75	5,75	5,75	5,75	5,50	5,25	5,75	5,75	5,25
EURPLN**	4,29	4,30	4,26	4,24	4,23	4,22	4,21	4,20	4,33	4,24	4,20
USDPLN**	3,97	4,02	4,02	4,04	3,95	3,87	3,83	3,75	3,93	4,04	3,75

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 09/09/2024				
3:30	China	PPI (% YoY)	Aug	-0,8		-1,4
3:30	China	CPI (% YoY)	Aug	0,5		0,7
10:30	Eurozone	Sentix Index (pts)	Sep	-13,9		-12,5
16:00	USA	Wholesale inventories (% MoM)	Jul	0,3		0,3
16:00	USA	Wholesale sales (% MoM)	Jul	-0,6		
		Tuesday 09/10/2024				
	China	Trade balance (bn USD)	Aug	84,7		83,9
		Wednesday 09/11/2024				
14:30	USA	CPI (% MoM)	Aug	0,2	0,1	0,2
14:30	USA	Core CPI (% MoM)	Aug	0,2	0,2	0,2
		Thursday 09/12/2024				
14:15	Eurozone	EBC rate decision (%)	Sep	4,25	4,00	4,00
		Friday 09/13/2024				
10:00	**Poland**	**CPI (% YoY)**	**Aug**	**4,2**	**4,3**	**4,3**
11:00	Eurozone	Industrial production (% MoM)	Jul	-0,1		-0,3
14:00	**Poland**	**Current account (M EUR)**	**Jul**	**588**	**-786**	**-445**
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Sep	67,9	67,5	68,0

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank
** Refinitiv

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