4Q21 “Consumption boom” in Poland and a hawkish central bank governor

Even though December retail sales fell short of expectations, Poland saw a consumption boom in 4Q21 driven by a low base from 2020 and strong services. With household consumption growth estimated at around 8% year-on-year, GDP jumped up by 7.8% YoY in 4Q and about 5.9% in 2021. Governor Glapinski's recent hawkish turn seems to be not only driven by this

A shopping mall in Warsaw, Poland

Solid retail sales in December, but weaker than expected

Retail sales went up by 8.0% YoY in December, after expanding by 12.1% YoY in the previous month. Sales of goods slowed a bit before end of the year, ie, (1) car sales nose-dived further amid limited availability (supply bottlenecks), (2) gasoline sales increase was less robust than in November in annual terms, most likely due to less traffic during the holiday period as the fourth wave of Covid-19 emerged and (3) buoyant growth of textiles, clothing and footwear was still reported (31.1% YoY), albeit at a slower annual pace than in November, when it soared 55.8% YoY.

In December 2021, retail sales moved away from the pre-pandemic trend yet again and was merely 4% higher than in February 2020. At the same time upward pressure on goods prices continues. The implied deflator of retail sales was running around 8% YoY for the second month in a row in December.

Even with retail sales losing momentum in December, the overall 4Q21 data showed a consumption boom. Sales of goods jumped up by around 9% YoY in the last three months of 2021. At the same time our internal data suggest a robust increase in sales of services towards the end of 2021. The robust dynamics of consumption despite the acceleration of prices is caused by low base from 2020, when strict lockdown measures were imposed in November and a voluntary decrease of clients mobility was also visible.

As a result, we estimate that household consumption growth was around 8% YoY in 4Q21 vs 4.7% YoY in 3Q21. That translates into GDP growth of 7.8% YoY in the last quarter of 2021. It also implies 5.9% economic growth in 2021 in Poland.

Governor Glapinski's hawkish turn recently doesn't seem to be caused by consumption boom only

Last week Governor Glapinski said the National Bank of Poland (NBP) can deliver more hikes than the market is pricing in now. Before that comment FRAs priced a terminal NBP rate at 3.9%, and after the comment expectations rose by about 50bp, almost reaching our forecast which assumes that the NBP raises reference rates to 4.5% in 2023 (4.0% at the end of 2022). It is quite difficult to disentangle the governor's reaction function, but we see the following reasons behind Governor Glapiski's hawkish pivot. First, the stronger PLN is the most effective tool in containing inflation in the short term – rate hikes impact inflation with a substantial lag. This hawkish verbal intervention may help PLN stay resilient despite geopolitical risk at the Russian-Ukrainian border. Second, food producers warn that wholesale (unregulated) prices of natural gas and electricity grew 10-15 times more than regulated retail prices and this can trigger a strong jump of CPI nearing 10% in January. Also, the 4Q21 GDP estimates suggest that consumption stayed resilient despite the 2H21 CPI jump, which makes second-round effects even more likely. Overall, a stronger PLN would contain CPI in the short term.

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