

Falling retail sales in Poland confirm consumption weakness in the second quarter

Retail sales fell by 6.8% year-on-year in May, pointing to continued weakness in household consumption in the second quarter. Price pressure is abating in the short run, but mid-term upside risks remain substantial due to the tight labour market, buoyant wage growth and expansionary fiscal policy. More decisive monetary easing is expected in late 2024



Retail sales fell by 6.8% year-on-year in May (ING and consensus: -5.7%), following a 7.3% year-on-year decline in April. Seasonally adjusted sales fell by 1.1% month-on-month, after rising at the same rate a month earlier. Weakness in consumption will facilitate disinflation in the short term, while medium-term trends are more uncertain.

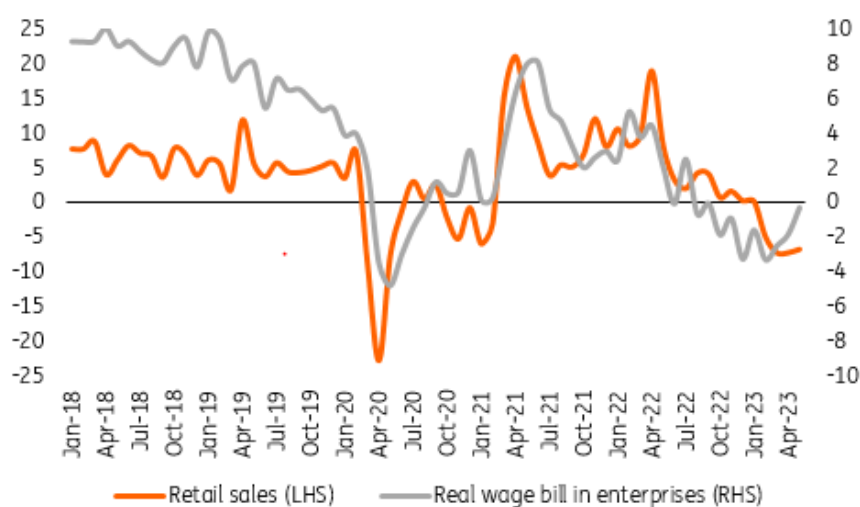
The decline in sales was broad-based. In real terms, sales declined in all categories. Durable goods fell at a double-digit rate: furniture, consumer electronics, and household appliances saw declines of -14.8% YoY, while newspapers and books fell by -15.2% YoY. The exception was car sales (-2.7%

YoY), where deliveries of pre-ordered cars that were delayed due to supply chain disruptions and processor shortages were most likely still taking place. On the other hand, a positive sign is a decline in the implied retail sales deflator to single-digit levels.

The deceleration of inflation amid sustained double-digit growth in nominal wages should promote a gradual improvement in real household incomes and, consequently, a recovery in private consumption, but the process is slow. At the moment, everything indicates that the second quarter of this year was the third consecutive quarter of declining household consumption, and we should expect increases only in the second half of the year.

Real disposable income of households will continue to recover

Real retail sales and real wage bill in enterprises, %YoY



Source: Source: GUS, ING.

Weakness in consumption will promote disinflation in the short term, while medium-term trends are uncertain. Against the backdrop of a tight labour market, high wage growth, minimum wage hikes, and expansionary monetary policy, it will be increasingly difficult for inflation to continue to fall after reaching high single-digit levels. As a result, the prospect of inflation returning to the NBP's target remains distant, and this means that the elevated level of interest rates will remain for longer.

At the same time, the Monetary Policy Council has expressed a willingness to cut rates later this year in the event of single-digit inflation in September and the prospect of further declines. In our view, this would be a one-off move, and the full monetary easing cycle will not begin until the fourth quarter of next year.

Author

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.