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.

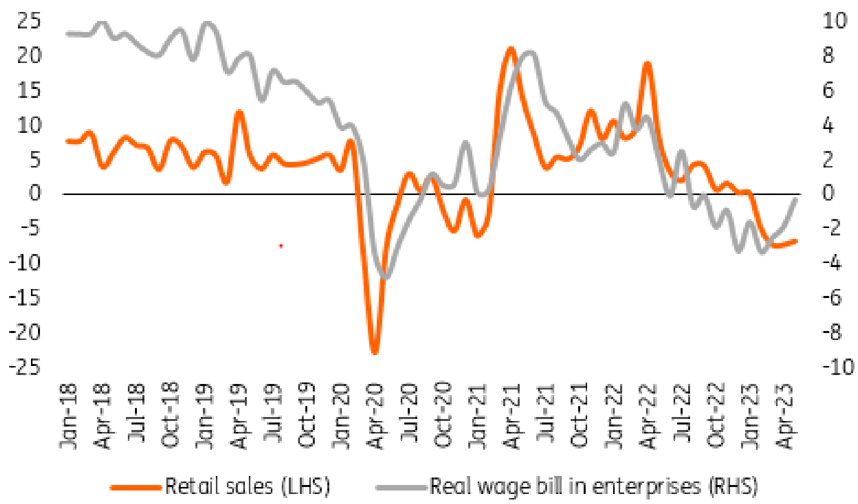
The decline in sales was broad-based. In real terms, sales declined in all categories. Durable goods fell at a double-digit rate: furniture, consumer electronics, and household appliances saw declines of -14.8% YoY, while newspapers and books fell by -15.2% YoY. The exception was car sales (-2.7%

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.

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