

## Poland: Consumer demand holding strong despite high inflation

Economic data for May points to solid growth in the second quarter, driven by consumer demand. The personal income tax rate cut from 1 July will boost net wages, supporting households' spending in the second half of the year. Taming inflation requires further monetary tightening. In July, the National Bank of Poland will hike rates by 50-75bp

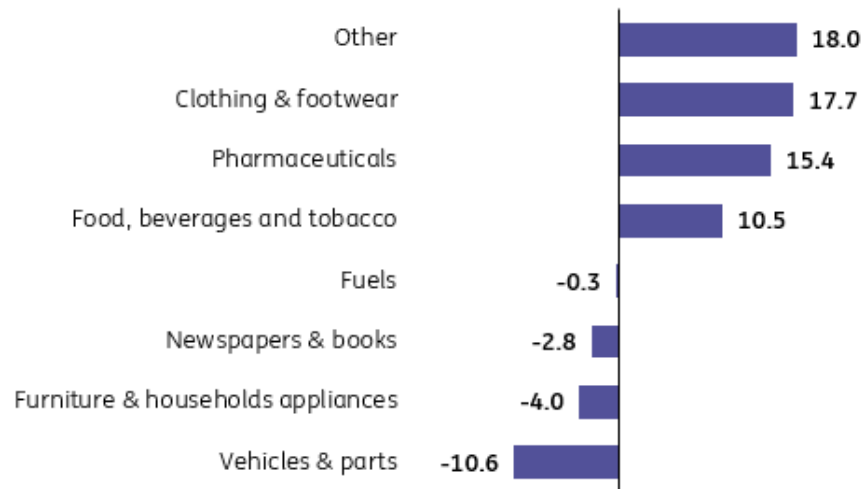


In line with our expectations, retail sales rose 8.2% year-on-year in May (ING: 8.2% YoY; consensus: 8.8% YoY), following a 19.0% YoY increase in April. The large swings in the annual growth rate of retail sales over the past two months were a consequence of the pandemic restrictions that were in place last April. The low base bumped up this year's reading in April, and the increase in buying activity in May 2021 created a high reference base for today's reading.

The structure of sales confirms our expectations about the consumption patterns of households. High demand was observed in the case of necessities, namely clothing and footwear (17.7% YoY), pharmaceuticals and cosmetics (15.4% YoY), and food and beverages (10.5% YoY). Purchases

made by Ukrainian refugees are contributing to this. Durable goods (cars, furniture, consumer electronics, household appliances) were noticeably less popular. The increase in prices slightly reduced demand for fuels.

## Real retail sales of goods, %YoY

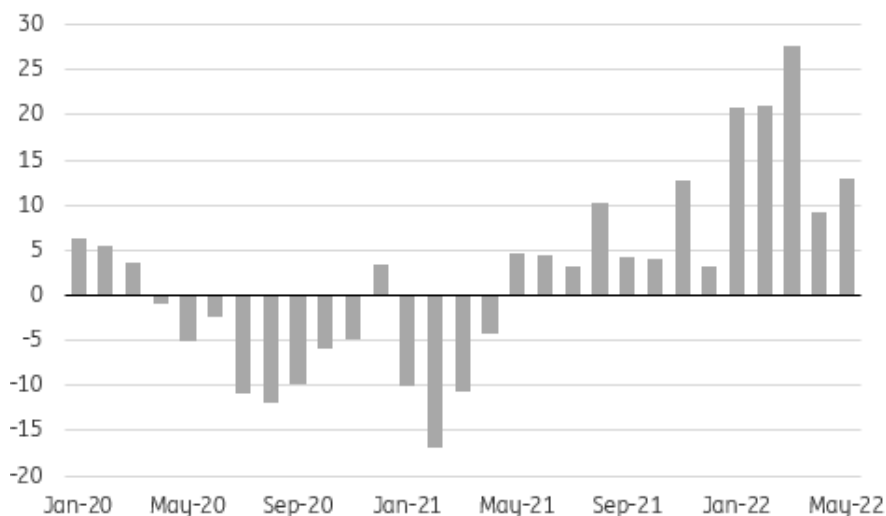


Source: GUS.

Consumer demand, boosted by the fiscal expansion, remains strong despite rapidly rising prices. We estimate annualised consumption growth in 2Q22 to be higher than in 1Q22. Strong consumer demand means that upward pressure on prices will continue. The implied deflator of retail goods sales rose to 14.2% YoY in May from 12.1% YoY in April. Further monetary tightening will be required to contain inflation. In July, the monetary policy council (MPC) will raise rates – we think by 50-75bp. The scale of the hike will depend on the June inflation estimate and the National Bank of Poland's July macroeconomic projection.

Construction output increased by 13.0% YoY in May (ING: 7.6% YoY; consensus: 8.7% YoY), following 9.3% YoY growth in April. The high reading was mainly due to the strong increase in building construction (34.7% YoY). The figure surprised to the upside, but the outlook for the construction sector is negative due to weakening demand for housing as a result of increased uncertainty and the rising costs of credit. The industry is also struggling with high input prices and staff shortages.

## Construction output, %YoY



Source: GUS.

May's set of economic data (industrial production, retail sales, construction output) is suggestive of a moderate economic slowdown and does not raise major concerns about the economic conditions in 2Q22. We estimate that GDP growth will be close to 6% YoY with strong household consumption.

### Author

**Adam Antoniak**

Senior Economist

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

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