

High Polish inflation a drag on consumption

Retail sales rose by more than 4% YoY in September, but sales of durable goods remain subdued due to elevated inflation. Demand for necessities was supported by the so-called '14th pension' and a sudden deterioration in weather conditions which boosted sales of clothing and footwear. Household consumption growth is projected to moderate

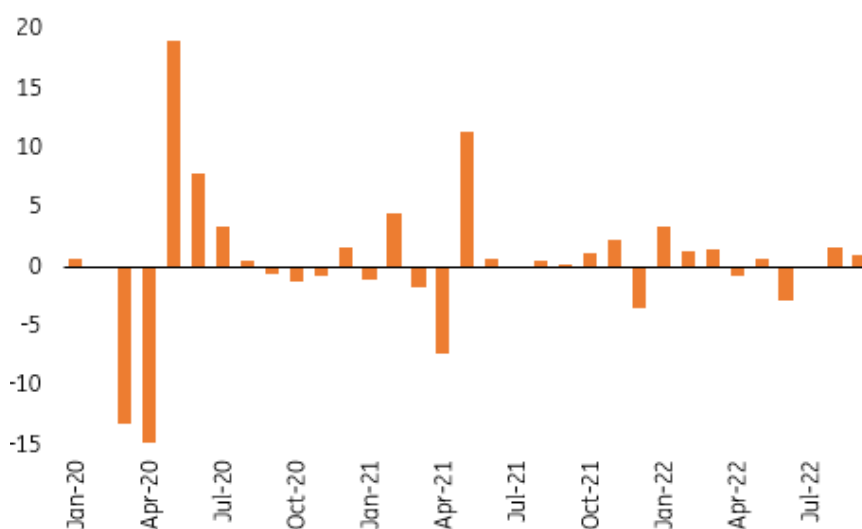


Shoppers in Warsaw

The retail sale of goods increased by 4.1% YoY in September (ING: 4.8% YoY; consensus: 4.5% YoY), following an increase of 4.2% YoY in August. Seasonally adjusted sales were 0.9% higher than in August. Elevated inflation is clearly weighing on the propensity to consume as pictured by the deep fall in fuel sales (-20.4% YoY). Sales of durable goods continue to fall (cars: -2.9% YoY; furniture, consumer electronics, household appliances: -4.3% YoY). At the same time sales of necessities continue to rise. Cooler temperatures in September boosted sales of clothing and footwear (+25.2% YoY).

Sales subdued despite 14th pension

Retail sales of goods, % MoM (SA)



Source: GUS.

When assessing September's retail performance, we must remember that it was supported by the 14th pension payments that took place in August and September. New benefits probably aided monthly sales increases in seasonally adjusted terms. Nevertheless, they still look weak compared to the previous two years. Against this backdrop, September's figures look rather soft.

The retail sales data suggest that high inflation is undermining consumers' purchasing power to such an extent that they are more cautious in their purchasing decisions. This is especially visible in poor demand for durable goods, where high uncertainty and unfavourable consumer sentiment are taking their toll. Some households are struggling to secure heating fuel for the winter and face high fuel prices. In addition to slower growth in demand for goods, we also see that the post-pandemic rebound in services is fading. Earlier this year consumers were eager to spend on services (tourism, eating out) that were restrained by the containment measures during the pandemic. High prices hit demand in this part of the market as well. As a result, we observe a cooling of consumer demand. Its scale may be slightly cushioned by fiscal expansion in the coming quarters.

We estimate that in 3Q22 GDP growth exceeded 3% YoY, with a significantly lower contribution from consumption than observed in 1H22. This means a deceleration in annual GDP growth, which in 2Q22 was at 5.5% YoY (according to unrevised data), but we judge that the economy managed to avoid a technical recession (the second consecutive quarterly decline in seasonally adjusted GDP).

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