Poland: Weakness in retail sales confirms economic slowdown

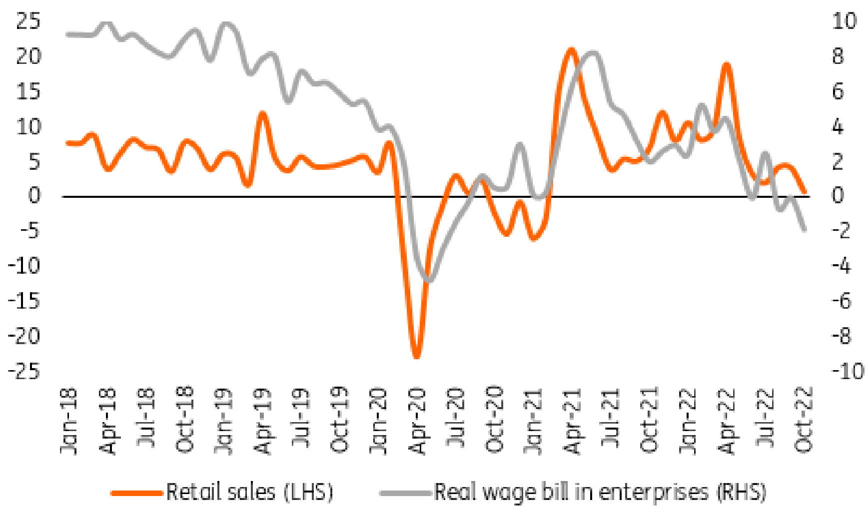
Retail sales slowed visibly at the beginning of 4Q fitting into the broad picture of a slowing economy. High inflation is undermining real disposable income despite one off pension payments and tax cuts as wage growth fails to keep pace with price growth. In the face of deteriorating GDP growth, the MPC is unlikely to resume its hiking cycle anytime soon

Retail sales of goods rose by just 0.7% year-on-year in October (ING: 3.8%; consensus: 3.2%), following a 4.1% YoY increase the month before. The weakness in sales was broad-based last month. The steepest declines were reported in fuel (-20.5% YoY), while the largest increase was in clothing and footwear (14.3% YoY). Growth in food sales (2.4% YoY) was also lower than in previous months.

Since May this year, wage growth in the corporate sector has been failing to keep pace with retail price growth (the exception being July, when high one off payouts in mining and energy temporarily boosted earnings). With relatively stable employment growth, this is translating into declines in the real wage fund. This is generating pressure on consumer spending as the resulting gap in real incomes cannot be offset by one off pension benefits and tax cuts. At the same time, households have largely consumed the savings accumulated during the pandemic.

Falling real wages translate into weaker demand

Retail sales of goods (real) and real wage bill in enterprise sector, % YoY



Source: GUS, ING.

The beginning of 4Q22 signalled a further downturn in the Polish economy. We have seen slower industrial production growth and weak retail trade data. The fact that construction continued to expand and was hardly hit by higher costs and a collapse in mortgage loans, is of little consolation given the fact that it was boosted by favourable weather conditions in October this year. In annual terms, GDP growth in 4Q22 will be lower than in 3Q22, and we expect a decline in 1Q23.

Given that a significant part of current inflation was driven by rising costs, the emergence of a negative output gap will have a limited impact on the pace of price growth. In 2023, we expect still high core inflation and double-digit growth in consumer prices (CPI). Given the MPC's sensitivity to developments in the real economy, the likelihood that it will resume its tightening cycle (which has been 'paused') is negligible in the coming months.

Author

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

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