Poland's high wage growth supports retail sales but households remain cautious

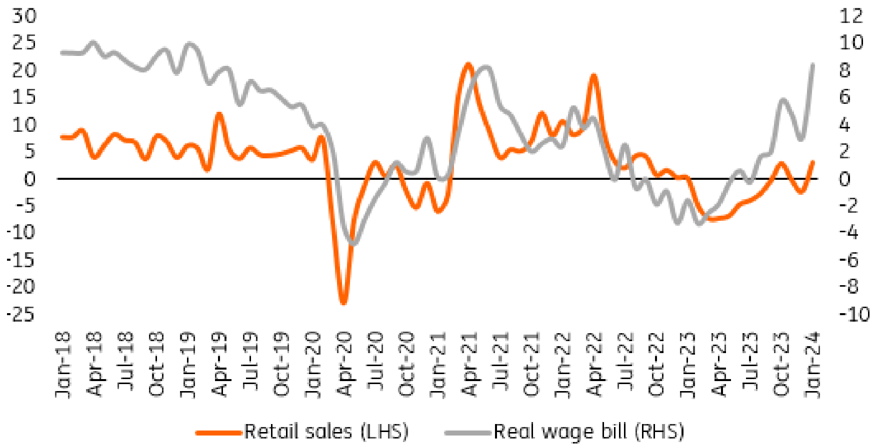
January retail sales turned out to be stronger than the market consensus and close to our expectations on the back of solid wage growth. Still, households remain cautious in spending decisions as retail sales growth underperformed the improvement in real disposable income. The new data supports our baseline scenario for this year

Real retail sales rose by 3.0% year-on-year in January (ING: 2.6%; consensus: 1.4%), after falling by 2.3% YoY in December 2023. The better-than-consensus (but close to our expectations) sales performance was supported by strong nominal wage growth amid falling inflation. The implied retail sales deflator eased to 1.6% YoY in January from 2.9% YoY in December, in line with the general disinflationary trend observed in Poland in early 2024. Seasonally adjusted sales grew by 0.4% month-on-month in January.

Regarding the sales structure, the largest increases in real terms were recorded in the sales of automobiles (+22.0% YoY), other sales (+18.9% YoY) and fuel (+13.1% YoY). In contrast, the deepest decline took place in textiles, clothing and footwear (-24.7% YoY), which, in our view, was due to the relatively high January 2023 reference base, weather conditions and the general tendency of households to cut unnecessary spending. There was also a deep decline in sales of furniture, consumer electronics and househnold appliances (-16.8% YoY). For the ninth month in a row, we saw slightly negative annual dynamics for purchases of food, beverages and tobacco (-0.6% YoY).

Retail sales bounced back on stronger wage growth

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



Source: GUS, ING.

Retail sales data brings some comfort after a disappointing outcome for industrial and construction production in January. However, it is worth noting that the 8.6% YoY increase in real wages in the enterprise sector was accompanied by an increase in real sales of just 3.0% YoY. This means that households remain cautious when making purchasing decisions. February's consumer confidence surveys indicate a slowdown in the improvement in sentiment and greater consumer concern about the future economic, financial and labour market situation.

Our baseline scenario for the current year assumes a continuation of the recovery in real household disposable income and a deceleration in investment growth. The January data published this week is in line with this assessment of the economic outlook. As we had expected, the increase in the minimum wage has sustained the upward pressure on average wages. This factor, combined with wage hikes in public sectors and the high indexation of social benefits, will drive household income up. Nominal disposable income growth, which we estimate to exceed 10% in 2024, in a lower inflation environment, will leave enough room for both savings to recover and consumption to grow. We therefore maintain our forecast for GDP growth in 2024 at 3.0%.

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