Regional analysis
Retail trade

Retail trade trends tilted downwards

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Highlights – retail trade

As the most of Adria region in 4Q2022 began to feel the pain of imminent recessionary surrounding, real retail trade data moved accordingly. A mix of economic activity slowdown, falling real wage levels, rising interest rates and ever-increasing prices, pushed annual growth rates down significantly in Serbia, Slovenia and Croatia, further deepened the decline in North Macedonia, while still held up in Bosnia and Herzegovina. In the following lines we will dive deeper into the country specifics to clarify the reasoning behind movements in the last quarter of 2022 and the whole year.

Croatia posted **significantly slower annual growth rate (of +0.3%) in real retail trade in the last quarter of 2022** versus in the previous first three quarters (+2.7% yoy on average), which was mainly influenced by a (continued) **drop in real disposable incomes of households**, with some base effect also present. A **healthy development on the job market** (employment up by 2.2% and unemployment level down by 7.7%, yoy), as well as **stronger tourism outcome** (+39% in total arrivals, +26% in total overnights, yoy) **could not compensate the fall of real net wages** (-4.6% yoy, according to October-November-2022 data only). Particularly discouraging is the fact that this relatively weak yoy increase of real retail trade in 4Q (weakest since the same quarter of pandemic-impacted 2020) was exclusively driven by „Other" category (+13.9% yoy), which in itself contains automotive fuel sales. This was not surprising due to the fact that fuel prices increased markedly throughout the whole last year, amidst geopolitical situation and also as Gov't efforts to contain price growth (by regulating fuel prices on a bi-weekly basis) were more or less unsuccessful. More so, food and non-food, excluding fuel, sales fell by 1.5% and 2.1% yoy, respectively. Disappointing food sales in 4Q was also not surprising, as it was largely influenced by soaring food prices, which, we presume, was more driven by price hikes by retailers due to pending eurozone entry (many of them increasing prices in HRK to be rounded-up „perfectly" in newly EUR currency) and was in contrast to global food price drop (in December-2022 food price index, according to FAO, declined on a monthly basis for the ninth month in a row).

On the other hand, general economic slowdown and tighter credit conditions, influenced a drop in ex-food&fuel sales, as consumers were reluctant to spend on non-necessities. If we remove price changes from the equation, nominal retail trade in the last quarter of 2022 advanced by 16.2% yoy or roughly in line with the 1-3Q2022 average of +15.7% yoy, pointing that there is still no contraction in demand and sales of retail firms would still be materially higher predominantly thanks to price effects. All in all, 2022 brought 16.0% yoy rise in nominal and 2.1% yoy rise in real retail trade growth, amid favourable labour market developments, strong demand and healthy lending conditions/excess savings. In 1Q2023, we expect unfavourable conditions to weigh on the retail trade. More precise, tourism activity is expected to moderate given the closure of many hotel accommodations (as energy prices are still elevated and thus forced many in the hospitality sector to revise their business operations), while also the overall economic situation of the major emitive markets could force many foreigners to abstain from traveling to Croatia. **It is very important to understand that the country receives around five times more tourists than its overall population and thus foreigners enormously influence tax incomes via Gov't income from VAT**. In addition, rising interest rates are already influencing lending standards, which ultimately will increase costs of consumer/cash loans that many households use to meet their daily needs. As interest rates on those types of loans are expected to advance further on the back of monetary tightening cycle, we expect that retail trade will be affected accordingly in the quarters ahead also. Lastly, there is also the case that inflationary surrounding, although softening, will still be present throughout 2023 and as such will bite on retail sales via deteriorated real wage growth, with additional factor being unknown movements of energy prices come end-March-2023, as that's when the heating season ends and energy prices are being once again administratively regulated.

Highlights – retail trade

Bloomberg Adria

Retail trade in **Slovenia in 4Q2022 jumped by 6.1% yoy in real terms** (+19.7% yoy nominally), i.e., **slowing down versus 1-3Q2022 avg of +26.3% yoy**, amid base effect and as inflation month in month out decreased real net wage level. Growth in 4Q was mainly driven by higher fuel sales (+17.2% yoy) and to a lesser extent by 2.5% yoy higher non-food, excluding fuel, sales. Food sales, at the same time, fell (-4.0% yoy) the most since the beginning of the pandemic in 2Q2020 (-4.4% yoy), strongly affected by soaring prices. In 2022, real retail trade thus advanced by 20.3% yoy or faster vs 2021 (+18.9% yoy), given the higher growth in sale of fuel products (+57.1% vs 32.5%). Ex-food&fuel sales slowed to +7.2% yoy (+17.6% in 2021), as general economic activity softened and consumer credit standards tightened, while food sales, under base effect and slower demand due to high inflation, declined by 1.9% yoy (+7.4% in 2021). Overall retail trade growth last year was **supported by very tight labour market**, which drove unemployment numbers down and kept employment level at record high. Poorer economic environment, falling real net wage level, high base effect and costlier consumer crediting will influence real retail trade growth rate to decline on a annual basis from the start of 2023 onwards.

Bosnia and Herzegovina was **the only Adria region country that sped yoy real retail trade growth in 4Q** (+12.5%) versus 3Q (+10.2% yoy), but also, as was the case in the rest of the region, it was slower versus 1-3Q2022 avg of +14.2% yoy. At the same time, nominal growth rate in 4Q was relatively the same as in the previous quarter (+18.5% vs +18.3% yoy, respectively). Faster real growth rate in 4Q vs 3Q was realized despite strong price hikes of many products, which apparently comes as a lagged effect of the economic rebound and this despite the non-existent Gov't support to shield households form rising costs. Sales of automotive fuels (despite not being regulated as in most of the region, which helped to contain soaring transportation costs elsewhere) increased by 4.1% yoy or faster vs in 3Q (+2.8%). In nominal terms, fuel sales softened to +22.4% yoy from +29.2% yoy in 3Q (all the other categories nominally rose faster vs 3Q, meaning consumers were buying more fuel in volumes but amid slowing fuel price inflations). Food sales in 4Q rose by 5.7% yoy, while non-food, w/o fuel, by 20.1% yoy. FY2022 real retail trade stood at +13.5% yoy (+18.1% in 2021), amid healthy labour market trend, higher consumer crediting, inflow of remittances and tourism activity.

Retail trade growth in **Serbia slowed to 2% yoy in 4Q2022 in real terms** (+19.9% yoy in nominal terms), after increasing 7.3% on average in the first three quarters in 2022 (+22.7% yoy in nominal terms). Sales of fuel are still advancing, even though they slowed down slightly to 12.1% yoy in 4Q2022 in comparison to 13.3% yoy on average in the rest of the 2022. In fact, if we exclude retail trade of fuel, retail would drop in 4Q2022, as the other categories posted negative yoy growth rates. Food sales fell 0.9 yoy in 4Q, posting highest yoy fall in last 7 years (partly due to relatively poor 2022 agriculture season), while ex-food&fuel sales fell 0.4% yoy. Decrease in sales is showing effects of **real wages deteriorating** from October-2022 in line with still high inflation dumping demand. Drop in sales is also indicating monetary policy (both ECBs and NBSs) transmission to demand. To be precise, cash and consumer loans significantly slowed down in 4Q2022, as interest rates went up, so there is a pull down on sales growth. If we take a look at overall 2022, retail trade in real terms was 5.7% higher than in 2021 (+10.3% in 2021). In Serbia retail trade growth in 2022 was persistent until 4Q2022 as wages were chasing growth in prices, while labour market showed resistance, and additional funding sources (consumer loans and workers' remittances) helped keeping consumption levels. For the first quarter of 2023, we see risks tilted strongly to the downside, given the inflation-impacted wages and slowing economy, which we see as a main driver for falling real retail trade level.

In **North Macedonia**, retail sales were quite weak in 2022. **In 4Q real retail trade dropped -1% yoy** (or 15.6% nominal), compared to average yoy increase during 1-3Q2022 of 1.5% (or 17.5% nominal), recording second consecutive quarter of falling yoy sales. If we eliminate fuel, motor vehicles and motorcycles, retail sales in real terms plummeted even more, by 6.2% yoy in 4Q. Retail trade of food was dropping constantly throughout 2022, posting 6.2% yoy decrease in 4Q. If we take a look at whole 2022, retail trade gained only 0.7% yoy in real terms (+8.9% yoy in 2021), with food trade leading by 7.5% yoy reduction (+4.7% in 2021). **North Macedonia posted the highest rates of inflation in the region, and had the biggest deterioration in real wages, so retail trade had to bear the consequences**. Still, loans for consumption are rising (2/3 of the outstanding household debt refers to debt for consumption) and remittances posted increase of about 7% yoy in 3Q2022, both trying to support consumption.

Special topic – retail sentiment

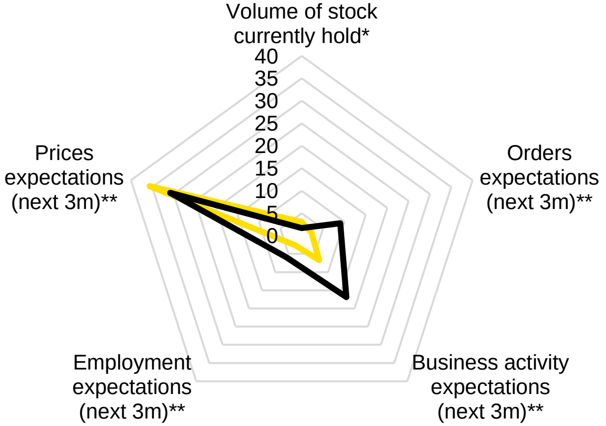
In the first part of special topic, we are going into the details of sentiment at retailers i.e. business-side view. According to EC Business and consumer survey results, retail confidence indicators in the Adria region are positive in general. Recent January-2023 data show that all retailers over the region post better confidence in comparison to 2021-2022 average, due to recovering sentiment in recent months. Only in Slovenia there are signs of confidence mom drop, correlated with 1.4% qoq drop in GDP this country experienced in 3Q2022, and weak growth prospects until end-2023.

In the Adria region more retailers expect increasing orders in the next 3 months. In comparison to 2021-2022 average, only in Serbia retailers' expectations are lower, as Serbian wages began to deteriorate in real terms later than in other countries, and their reflection on retail is ongoing, with inflation peak expected in 1Q2023. In line with that, the business activity picture is similar. Retailers over the region expect increase in their business activity, but in Slovenia and Serbia lower than 2021-2022 average. For Slovenia we can say that relates to the volume of stock currently hold, as Slovenia is the only country retailers express their current stocks as bellow normal for the season, perhaps as retailers feared more of recessionary trends than it eventually materialized. In line with its weaker economic prospects, in Slovenia retailers on average expect the employment to decrease in next 3 months.

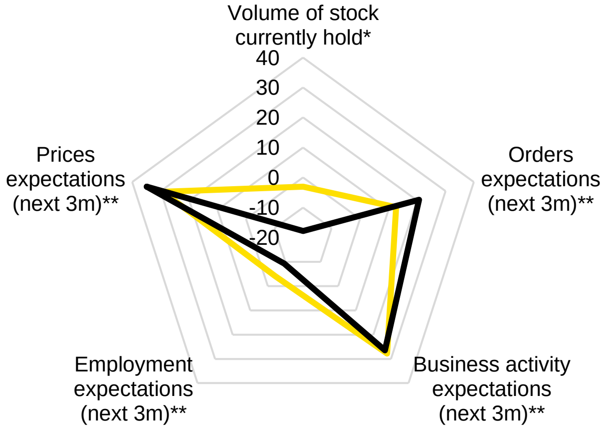
When it comes to perception on further price movements, in all countries, expectations are biased towards price increase, although in Croatia and North Macedonia expectations are lower in January-2023 than 2021-2022 average, as those countries demonstrate the highest drop in wages on yoy basis (according to November-2022 data), which reduces demand and lowers inflation pressures. On the other hand, retailers in Slovenia and Serbia posted somewhat higher expectations for price increase in comparison to 2021-2022 average, as retailers see persisting demand, and in Serbia frozen prices on basic food staples are still in force.

Retail trade survey – sentiment indicators

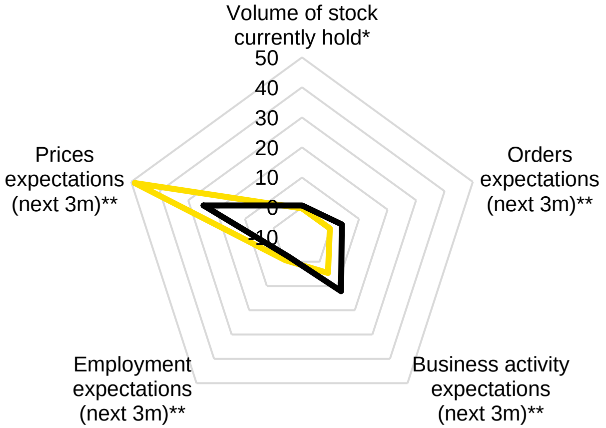
Croatia



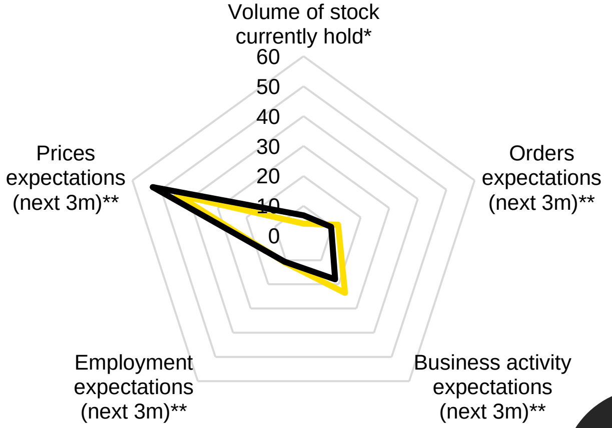
Slovenia



North Macedonia



Serbia



Average (2021-2022) January-2023

Source:EC ESI
* (+) too large, (-) too small
** (+) increase/improve, ** (-) decrease/deteriorate

Special topic – consumer sentiment

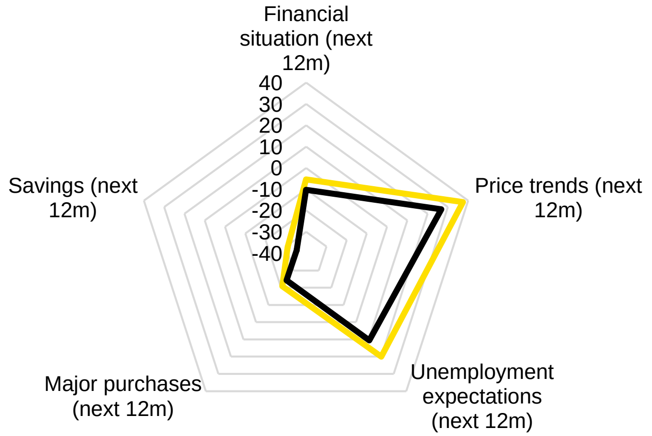
In the second part of special topic, we are going into the details of sentiment at consumers i.e. household view. In contrast to what retailers expect, consumers are not optimistic, as consumer confidence indicators in January-2023 were negative all over the region, according to EC Business and consumer survey results. In addition, consumer confidence decreased in comparison to 2021-2022 average, except for North Macedonia posting January-2023 data in line with mentioned average (mostly due to lowest confidence levels during 2021 and 2022).

Consumers are perceiving their financial situation in the next 12 months worse in comparison to the previous period. That is not surprising, given that wages are decreasing in real terms, and prices are still growing. In line with that, all over the Adria region consumers expect their savings to deteriorate in the next 12 months, as they were expecting on average in 2021-2022. According to January-2023 data consumers expect the unemployment to increase in the following 12 months, except in Serbia, where the consumers expect unemployed number to fall (due to general downtrend in unemployment in Serbia). Consumers in the region also do not think that they will decide on a major purchase in the following periods. In comparison to 2021/2022 average, only in Macedonia there is an improvement in this indicator, while this country also shows very low sentiment in this segment.

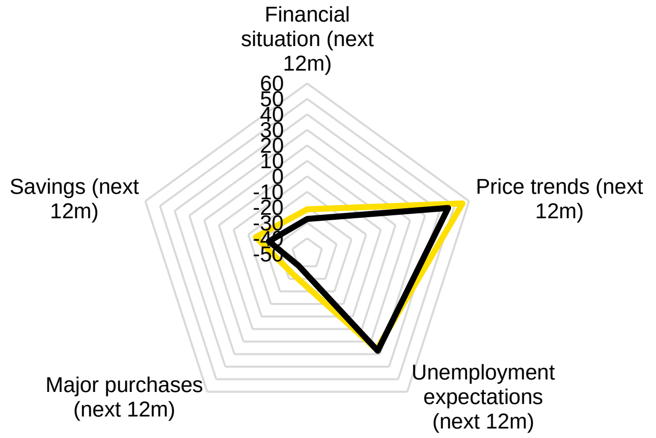
Price dynamic expectations of consumers are oriented towards increase, with North Macedonia posting decreasing sentiment. North Macedonia experienced the highest inflation rate in the region, so it is intuitive that the consumers expect the prices to stay the same or even drop slightly. In comparison to 2021-2022 average, there is a decrease in terms of price increase expectations, although in Serbia consumers expect higher inflation in January-2023, as consumers are quite sensitive on this topic given memory of nineties' hyperinflation is still present.

Consumer confidence survey – sentiment indicators

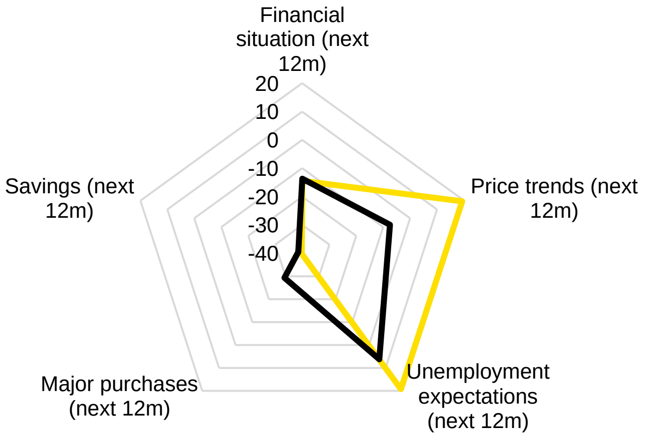
Croatia



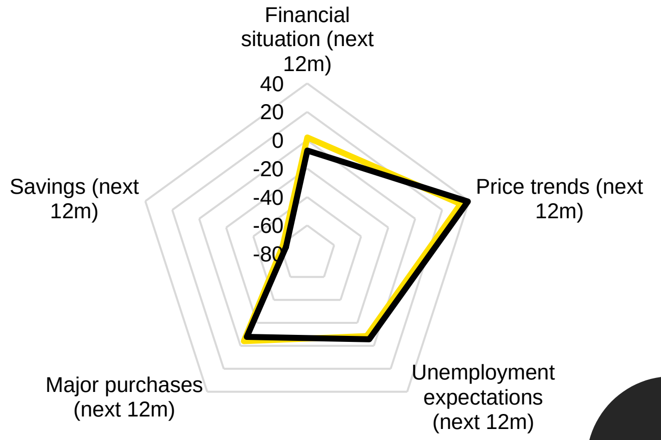
Slovenia



North Macedonia



Serbia



Average (2021-2022) January-2023

Source:EC ESI
** (+) increase/better, ** (-) decrease/worse

Special topic – spending capacity

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Previously we went through the official sentiment indicators within retailers and households. The full picture on the overall spending trends must take into account the core trends in spending capacity fundamentals. Our thesis is that the households spending trends in the recent months are more driven by deterioration in sentiment i.e. soft forces. Indeed, hereby we show that household spending fundamentals are still in many cases through Adria region at stronger levels than before the pandemic.

To display households spending capacity, we went through household savings, debt burden and net wages since end of 2019. The named time stamp is defined by observing the household saving habits in the recent years, where we saw that due to pandemic-related uncertainties households have saved much more than in many years before and this predominantly due to increased uncertainty about the outcome of the pandemic. As the anti-pandemic measures were abolished in 2022, there was a speed-up in household spending. This came alongside strong recovery of the labour market, however prices growth sped up materially as well. The important element is that households used much of their savings during the pandemic as an element supporting their spending habits during most of 2022.

When comparing the stock of household deposits and loans as well as net wages, and adjust those three figures for the consumer price changes, we come to the following conclusions:

- real value of household deposits is still higher in Slovenia, Croatia and Serbia than at end of 2019;
- real net wages are still higher than at end of 2019 in all countries in the region except North Macedonia;
- all countries except Serbia saw deleveraging of households' debt in real terms against end of 2019;
- there was a deterioration in most of spending capacity fundamentals during 2022 against 2021, but overall fundaments are still stronger than at end of 2019 (except North Macedonia as mentioned earlier).

While sentiment was the main driver of slowing retail trade in 2022, we think that household fundaments will deteriorate in real terms in 2023 and act negatively towards retail spending.

Households spending capacity fundamentals

Inflation-adjusted % changes vs. end-2019		31.12.2021	31.12.2022	Δ pp end-2022 vs. end-2021
Slovenia	Household deposits	13.4	11.1	-2.3
	Household loans	1.4	-1.8	-3.1
	Net wages	6.1	6.8	0.7
Croatia	Household deposits	11.3	13.5	2.1
	Household loans	1.4	-6.2	-7.6
	Net wages	6.1	2.3	-3.8
Serbia	Household deposits	18.6	6.4	-12.2
	Household loans	14.3	5.9	-8.4
	Net wages	15.5	6.3	-9.2
B&H	Household deposits	6.4	-10.0	-16.4
	Household loans	0.0	-10.0	-10.0
	Net wages	4.9	2.7	-2.2
North Macedonia	Household deposits	4.0	-8.7	-12.6
	Household loans	8.3	-2.3	-10.6
	Net wages	3.5	-5.4	-8.9

Source: local central banks, local statistical offices, Bloomberg Adria analytics calculation
*latest wage data for Novermber-2022

Outlook

As regards 2023, we see retail trade in the Adria region significantly deteriorated based on a couple of facts:

- **High inflation rates across the board** will continue to burden households' consumption, although price pressures are expected to be weaker versus 2022
- **Labour market developments are expected to move in line with slower overall economic activity**, meaning employment growth will moderate
- **For tourist activity, the unexpectedly strong outcome in 2022 will be strongly contested this year**, given the reopening of distant destinations, mostly as fuel prices are expected to lower versus 2022, which will support air travel. Another factor will be a continuation of unfavourable security situation in Europe, as the conflict in Eastern Europe extends to a second year. Moreover, there is a question of labour supply, as well as possible reduced number of investments from the major players in the sectors, given the introduction of windfall tax. High energy prices also forced some accommodations to close their business for the 1Q2023 period.
- **Tighter consumer crediting** is expected all over the region, in line with monetary policy directions, which will keep interest rates rising
- We expect **remittances* to drop versus 2022**, as the economic slowdown and cost of living crisis takes a toll in the biggest European economies (most important for remittances' dynamics)

On the other hand, positive risks for 2023 are associated with:

- **Ample savings** in the region buffering consumption needs in the environment of falling real wage levels
- **Unemployment rates are expected to slip (Serbia, North Macedonia, Bosnia and Herzegovina) or be at their lowest (Croatia, Slovenia)**, given the unfavourable migration/demographic situation in the region, further amplified by easing of work permit requirements for some of the major EU countries

*According to November-2022 issue of World Bank Group's report: „*Remittances Brave Global Headwinds*", remittances' share in GDP was ca 10% in BH, 9% in RS, 5% in RH, 3% in MK and around 1% in SI.

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