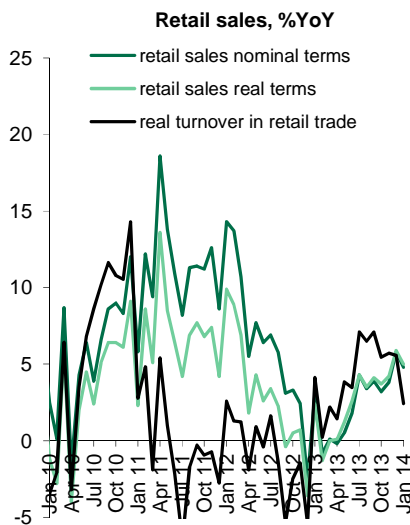


INSTANT COMMENT

24 February 2014

Good data on sales and unemployment

Pace of growth of retail sales reached 4.8%YoY, beating expectations. The unemployment rate increased to 14%, in line with estimates of the Ministry of Labour. Data show the continuation of recovery of domestic demand fuelled by improvement of the situation on the labour market. We expect these positive tendencies to be sustained in months to come. There is still no sign of an inflationary pressure, as deflator of retail prices remains in negative territory.



Consumer demand rising at a decent pace

Pace of growth of retail sales decelerated in January to 4.8%YoY from 5.8%YoY in December 2013. However, the reading was above market consensus (4.6%YoY) and our forecast (3.1%YoY). Slower growth when compared to December comes by no surprise as this is due to the base effect – postponement of payments of direct subsidies for farmers last year from December 2012 to January 2013 had positive impact on annual retail sales growth in December 2013 and dragged January's 2014 pace of growth. Overall, the data show the continuation of positive tendencies in retail trade and rising consumption demand. When compared to the final month of the past year, pace of growth decelerated most in case of sales of automobiles (to 8.8%YoY in January from 28.8%YoY in December), clothing and footwear (to 4.7%YoY from 8.5%YoY) and newspapers and books (to -0.1%YoY from 5.2%YoY). On the other hand, we saw an acceleration in some other categories. Consequently, our estimates show that after excluding autos and fuels, retail sales growth accelerated from 3.8%YoY in December to 4.5%YoY in January (fastest growth for two years). Turnover in retail trade (that includes sales in small shops but excludes autos) slowed down more than retail sales (to 2.4%YoY from 5.6%YoY in December). However, it is worth to notice that during the last half of the year, the former was clearly above the latter.

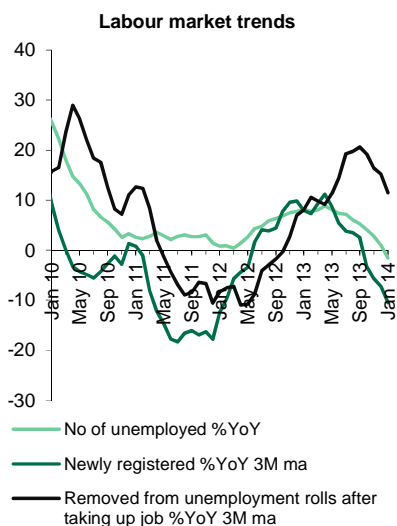
The data shows that consumption demand is gaining momentum, however there is still hardly any evidence of rising inflationary pressure. The real growth of retail sales reached 5%YoY, which implies that retail prices are still falling in year-on-year terms.

Unemployment rate lower than in the previous year for the first time in 4 years

Registered unemployment rate climbed in January to 14.0% from 13.4% in December. Thus, unemployment has fallen in annual terms for the first time since February 2009 (down from 14.2% in January 2013). Declines in annual terms were also shown by the total number of jobseekers (-1.5%) and number of new unemployment claims (-15.4%). On the other hand, number of people removed from unemployment rolls after taking up non-subsidized job expanded by 8.5%YoY. These data clearly show that Polish firms are boosting their demand for work. We are expecting a continuation of these positive tendencies in the upcoming months. Improvement of the labour market situation will be underpinning private consumption growth.

Detailed data on employment in corporate sector showed that the negative surprise in January (0.0%YoY, below the lowest market forecast) was caused by construction. After revision of the statistical sample, employment in this sector declined by 22k in monthly terms (-9.3%YoY). Situation was much better in other sectors, e.g. employment in manufacturing climbed by 0.8%YoY (vs. 0.5%YoY in December).

LFS data for 4Q2013 showed that the labour market situation may have improved faster than it was suggested by data on registered unemployment rate and employment in corporate sector. According to this survey, number of employed people in the whole economy advanced by 0.5%YoY while number of jobseekers fell by 3.5%YoY. Let us remind



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that LFS data describe tendencies in the whole economy, but are based on random sample. On the other hand, data on employment in corporate sector include all units but only from a part of the labour market (firms employing over 9 people).

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