

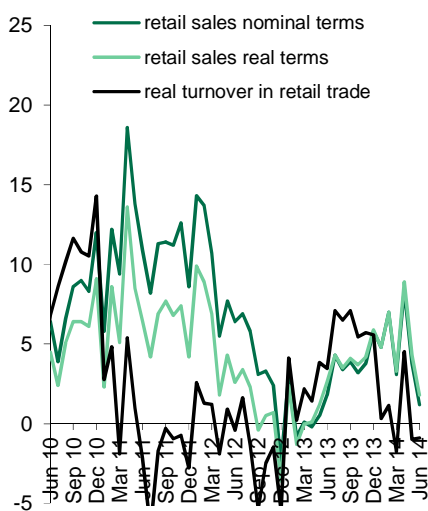
# INSTANT COMMENT

23 July 2014

## Unemployment lower, but sales very weak

June's retail sales (increase by a mere 1.2%YoY, strongly below expectations) is another negative surprise in domestic data. Even though the registered unemployment rate surprised to the downside (12.0% vs. expectations at 12.1%), a weakening of positive tendencies on the labour market was confirmed. We still think that GDP growth in Q2 (release of flash estimate is scheduled for 14 August) will show a slight slowdown, but economic growth should stay above 3%. However, as regards economic and monetary policy outlook, this figure will not be crucial. It will be more important if downward tendency visible in recent monthly data on economic activity will be continued in Q3. In our view, we can see interest rate cuts only in such a scenario. Thus, the second half of August, when data for July and detailed GDP numbers are released, will be very interesting.

Retail sales, %YoY



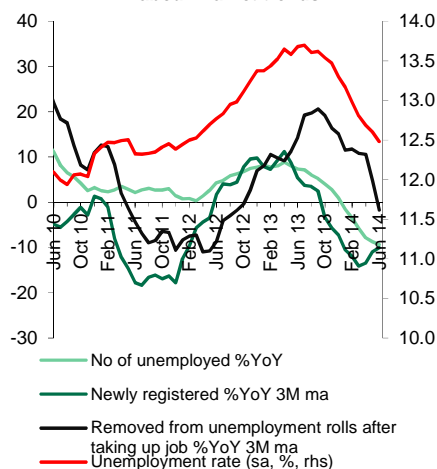
### Retail sales considerably below expectations

Retail sales added a mere 1.2%YoY in June (as compared to 3.8%YoY in May), running visibly below our and market expectations (3.8% and 4.0%, respectively), but also below the lowest market forecast (3.1%). This is the lowest pace of growth of sales since May 2013. Decline of sales in MoM terms was noted in all categories (with the strongest fall in household appliances – by 3.3%), apart from car sales, which expanded by 0.6%. As regards YoY terms, the most considerable decline was recorded in car sales. Sales excluding autos were slightly above 2%YoY. Real sales expanded by 1.8%YoY. The CSO informed also that retail trade turnover declined by 0.9%YoY in June and by 0.6%YoY in seasonally adjusted terms (vs. -1.6% one month before).

Real sales increased by 5.1% YoY (5.5% YoY in Q1). Slowdown in Q2 was not very significant thanks to very good results in April (a one-off, due to Easter). The downward tendency of sales in Q2, visible every month, is more worrying. Especially as the same trend was visible in case of industrial and construction output.

June data on retail sales was below expectations, just like industrial output and wages in corporate sector. Despite these disappointing releases, it is worth to notice that consumer confidence index is at a relatively high level and – what is more important – situation in the labour market is improving (strong growth in real disposable income). Nevertheless, June's data may strengthen investors' worries over the outlook for the Polish economy after a significant acceleration in 1Q (GDP increased by 3.4%YoY). In our view, GDP may grow at a slightly slower pace in 2Q, but it should be still above 3% (flash estimate of 2Q GDP is due for release on August 14). Still, it seems that the first monthly data releases for 3Q will be more important than historical 2Q numbers for the economic outlook assessment and for the monetary policy decisions. Publications for July will show whether the economic slowdown observed in recent months was only a temporary phenomenon or a beginning of GDP growth deceleration below 3%. We think the Polish market may be mainly under the impact of global events in coming weeks, but the second half of August will be full of important local macro releases.

Labour market trends



### Unemployment below expectations, but pace of improvement slows down

The registered unemployment rate amounted to 12.0% in June, i.e. slightly below our and market expectations (12.1%). In YoY terms unemployment rate declined by 1.2 percentage points. Number of jobseekers amounted to 1.913mn, i.e. by 9.3% less than one year before.

Although unemployment data was a positive surprise, June's numbers confirmed the tendency observed in the last months already, i.e. a slowdown of pace of improvement. While the number of newly registered unemployed was declined at two-digit pace (-10.1%

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YoY vs. -5.4% in May), the growth rate of unemployed removed from rolls due to taking up job is deteriorating (-4.5%YoY versus +1.4%YoY in May). This means that enterprises reduce the pace of creating new vacancies but they do not shed existing jobs. We expect further decline of unemployment rate in seasonally adjusted terms but in the nearest future it should stabilise near 12%.

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