

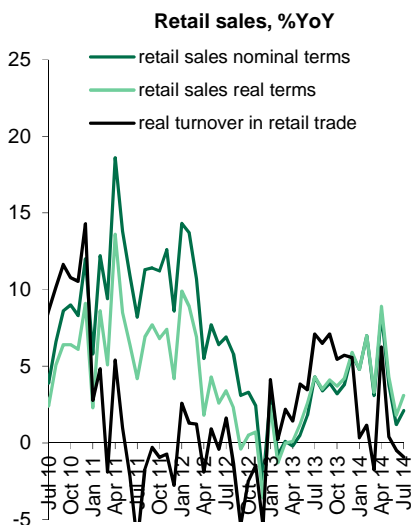
INSTANT COMMENT

26 August 2014

Retail sales did not disappoint this time

Retail sales growth accelerated in July to 2.1%YoY, which was in line with market consensus and higher than we predicted. We think that better result may be to some extent connected with very good weather in July, which caused that more people spent their holidays in Poland rather than going abroad. On top of that we had higher than expected sales of motor vehicles. The data did not change substantially the outlook for the coming months – we expect slightly higher sales growth, as consumer demand is still supported by gradually increasing real households' income. On the other hand, rising uncertainty and waning pace of improvement in the labour market will limit consumer confidence to some extent. Unemployment rate fell in July to 11.9%, and next few months may see its stabilisation (before seasonal rise slightly above 12% at the year-end). In general, the set of economic data released in the recent weeks reduced optimism regarding GDP and inflation outlook for the nearest quarters and we think the Monetary Policy Council will cut interest rates in Poland (by 75bp in total in the next three months). However, we doubt if there is majority of votes to support the first rate cut already in September.

Retail sales growth accelerated slightly



Retail sales grew by 2.1%YoY in July – in line with market consensus and above our forecast (1.6%). A notably higher sale of motor vehicle in comparison to June was a major surprise (growth by 3%MoM, while July usually sees a seasonal decline in this category). It is difficult to state at this point to what extent it reflects a sustainable pickup in consumer demand. In our opinion, this increase cannot be explained fully by a sudden rise in Poles' demand for motorcycles with engine capacity up to 125 cm³ shortly before changes in traffic regulations (number of newly registered motorcycles grew by almost 70%YoY in July), simply because of small size of this market segment. It seems that the retail sales growth in July could have been partly supported by very good weather, which made more Poles to spend holidays in Poland. In general, higher consumer spending is justified by decent growth of real income of Polish households. We think that in nearest months the sales growth will accelerate and in the second half of the year average real growth of retail sales will be close to 4%YoY, while average growth of private consumption demand should near 3%YoY.

It is worth to notice that prices in retail trade continue declining at an accelerating rate (downward tendency persists for already 16 months, including 3 months of pause). In July, retail sales deflator reached its all-time low at -1%YoY. This shows that there are still no signs that recovery in consumer demand generates pressure on prices.

Registered unemployment rate at lowest level since 2011

As expected, in July registered unemployment rate declined to 11.9% (down from 12% in previous month), reaching the lowest level from 2011. At the end of the month the number of registered unemployed amounted to 1878.5k and was lower by 1.8%MoM and 10.3%YoY. In nominal terms the number of unemployed fell by 34k versus previous month, which is significant slowdown in the improvement on the labour market as compared with previous months. As compared with June newly registered unemployed increased sharply by c25% (to 200k), mainly due to increase in number of unemployed re-entering the unemployment rolls (by 22.6%MoM). However, one should notice that in July job offers declared during a month increased to nearly 97k, or by 13.1%MoM and by 24.2%YoY.

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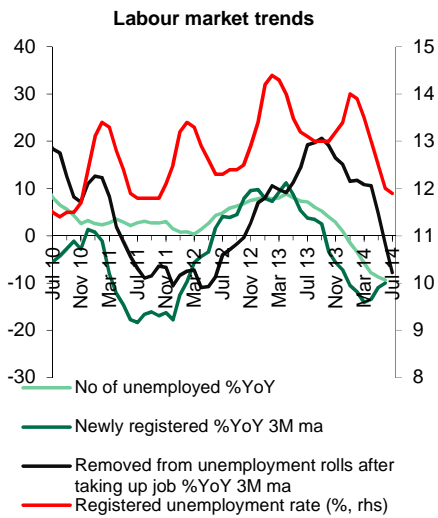
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July's data from the labour market confirm that pace of improvement decelerated somewhat despite higher number of job offers. In our view, the unemployment rate may stabilize in coming months and then should rebound in line with the seasonal pattern to slightly above 12% at the year-end.

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