

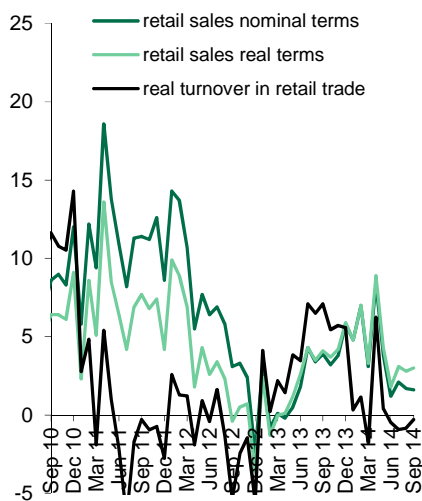
INSTANT COMMENT

23 October 2014

Warm September cooled down retail sales

Retail sales growth disappointed in September, slowing to 1.6% YoY. The poor result was mainly driven by the weak performance of clothing and footwear and this might have been due to exceptionally good weather last month, which postponed a switch from summer to autumn clothes. Meanwhile, data on the unemployment indicate that the positive trends in the labour market strengthened again, which should support the private consumption in the second half of the year. On the other hand, one may worry how sustainable this improvement is amid decelerating external demand leading to weaker performance of the manufacturing. Today's data did not change our expectations for a 25bps rate cut in November.

Retail sales, %YoY



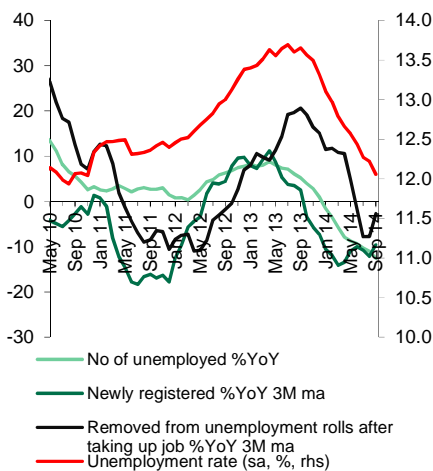
Retail sales below expectations

Growth rate of retail sales slowed down in September to 1.6%YoY from 1.7%YoY in August. This result was weaker than our and market expectations (at 2.5% and 2.4%, respectively). Weak sales in footwear and clothing were the main source of the negative surprise. Usually, spending for clothing and footwear goes up considerably in September (16.6%MoM in September 2013, 11%MoM on average in the last seven years), as consumers are buying new clothes for the autumn and winter season. Meanwhile, this time sales in this category fell (-5.9%MoM and -3.9%YoY), which may have been due to exceptionally good weather. September 2014 was the warmest since 2006, and this probably encouraged some consumers to postpone purchases of new clothes. If this is the case, then we may expect this postponed demand to materialize in the following months, fuelling an improvement in sales. Let us note also that sales of furniture and household appliances were also weak (-4.7%MoM, 1.0%YoY), which may be a sign of more fundamental weakness in consumer demand. On the other hand, car sales recorded a considerable revival (20%MoM, 1.3%YoY), and growth rates in other categories were decent, pointing that underlying trend in consumer demand is not weakening.

Retail sales growth in constant prices accelerated to 3.0%YoY and is almost twice as high as growth in nominal terms. This is due to accelerating decline of prices in retail trade (the deflator of retail sales has been below zero for 1.5 years, with some minor breaks).

Further improvement in the labour market resulting in rising households' real disposable income should support the moderate pace of consumption spending in the coming months. This should constrain the pace of the GDP growth deceleration in the next quarters. However, our estimates show that economic growth slowed down to c2.8% YoY already in 3Q14 and it is hard to expect any improvement in the final quarter of the year.

Labour market trends



Number of registered in unemployment rolls drops

The unemployment rate dropped in September to 11.5% from 11.7% in August, in line with our expectations. Interestingly, the number of removed from the unemployment rolls was higher than a year ago (by 8.5%), for the first time for over a dozen of months. Number of removed after receiving a job also increased, by 5.6% YoY, although the growth reaches only 0.6% YoY after subsidized jobs are excluded. Additionally, the number of the job offers was highest for over 4 years. Data after seasonal adjustment confirms that job creation improved in 3Q after some temporary slowdown in 2Q.

September unemployment rate data showed that positive trends in the labour market strengthened in 3Q after some deterioration in the previous quarter. This was to some extent due to the Ministry of Labour activity, but this factor was not decisive. Better situation

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in the labour market supports hopes for a good consumption growth in the second half of the year. However, one may worry how sustainable this improvement is given the economic slowdown. We expect the registered unemployment rate to be slightly below 12% at the year-end.

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