

Instant comment

Weak sales, but still not the end of the world 21 December 2012

Retail sales growth decelerated in November to 2.4%YoY, while unemployment rate climbed to 12.9%. These figures joined set of worse-than-expected data released this month and they show that economic slowdown may be deeper than expected by the market. Weakness of consumer demand and further deterioration of labour market conditions will surely not be supportive for “inflation persistence”, one of the main concerns of the MPC. However, we still doubt if the Council will decide for a cut deeper than 25bps at the upcoming meeting in January (even though the cut itself seems to be a done deal).

Consumer demand still weak

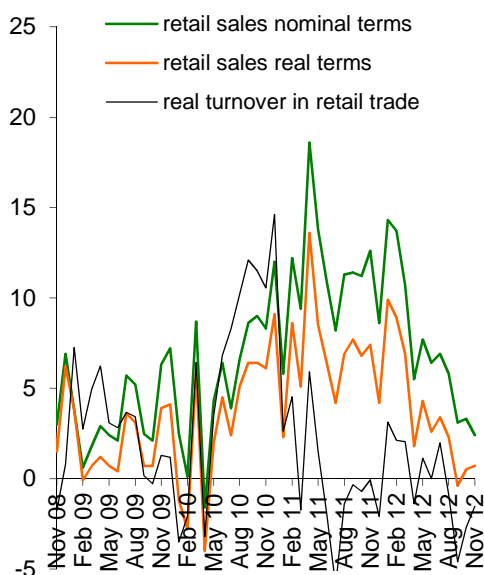
Growth of retail sales slowed in November to 2.4%YoY from 3.3%YoY in October. This is another publication of this month, which turned out to be weaker than expected – our forecast was 2.9% and market consensus was 2.8%. The increase in retail sales in constant prices (amounting 0.7%YoY) slightly accelerated as compared with the two previous months, but this growth is still close to zero, indicating that consumer demand remains stagnant. It is interesting that retail sales’ deflator fell much more than CPI inflation (to 1.7%YoY from 2.8% in October), which indicates a fast downward pressure on prices in the trade, probably as a result of the weakness in demand. Compared to October, the biggest deterioration of the sales growth has been recorded in newspapers and books, vehicles and fuels. The improvement was recorded in the sales of clothing and footwear, food and beverages, pharmaceuticals and cosmetics. According to our estimates, nominal retail sales growth excluding vehicles and fuels accelerated slightly to 2.3%YoY in November from ca. 2% in October.

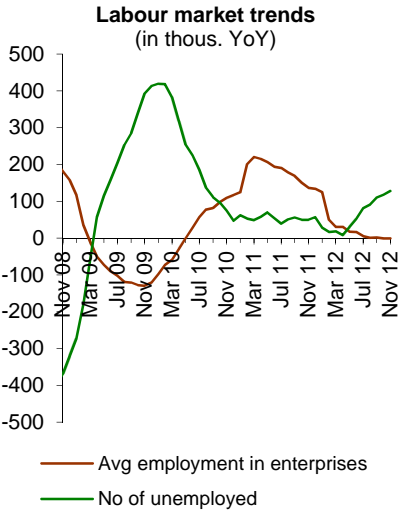
All in all, data on retail sales confirm that pace of GDP growth in Q4 will be clearly below levels recorded in previous quarters. They indicate also that – contrary to our expectations – the pace of growth of individual consumption may not rebound that fast from the bottom seen in Q3. The weakness of consumption demand is also confirmed by in data on retail trade turnover (that includes also small stores and excludes sales of autos) which shows negative pace of annual growth already since August. Our forecast of GDP growth for Q4 remains unchanged (ca. 0.5%YoY) because weaker individual consumption may be offset by better foreign trade balance.

Unemployment rising more than expected

Registered unemployment rate in November increased to 12.9%, stronger than our and market expectations (12.8%). The number of unemployed people reached the level of 2,058k and was 7.5% higher than in the same period of 2011, while unemployment rate climbed by 0.8pp in comparison with November 2011. Data show that negative tendencies on the Polish labour market are intensified and the bottom of economic cycle is still ahead. It is worth emphasizing that this strong increase in unemployment took place despite intervention by the Labour Ministry, which has used additional resources from the labour fund in September-November period offering subsidized work and trainings for almost 70k persons more than last year. In our opinion without this intervention the

Retail sales, %YoY





registered unemployment rate would have increased towards 13.5%. Details about the registered unemployment are consistent with data from industrial sector released on Tuesday. Today the CSO published the detailed data about employment in enterprise sector, which shows that surprising decline in employment resulted from a strong decrease in retail trade, which so far was quite immune to slowing down. It might come from weaker purchases of households.

We are expecting further increases of registered unemployment rate in the upcoming months, to ca. 13.5% in December and even to 14% in January. Polish labour market situation will remain weak and in our view some potential for recovery can appear at the end of 2013 at the earliest. This weak situation will adversely affect Polish households' spending and pace of growth of private consumption.

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Treasury Division. Economic Analysis Unit. ul. Marszałkowska 142. 00-061 Warsaw. Poland. phone +48 22 586 83 63. email ekonomia@bzwbk.pl. <http://www.bzwbk.pl>