

# Instant comment

## Weak sales and labour market

24 May 2013

Data on retail sales and unemployment rate in April were precisely in line with our expectations (at -0.2% and 14.0%, respectively), confirming that consumer demand remains weak at the beginning of Q2, among others due to difficult labour market situation. At the same time, low demand is causing low inflationary pressure, which is reflected in negative deflator of prices in retail sales. This is yet another piece of information that should support the MPC in taking decision on another rate cut at the upcoming meeting.

### Another month of weak sales

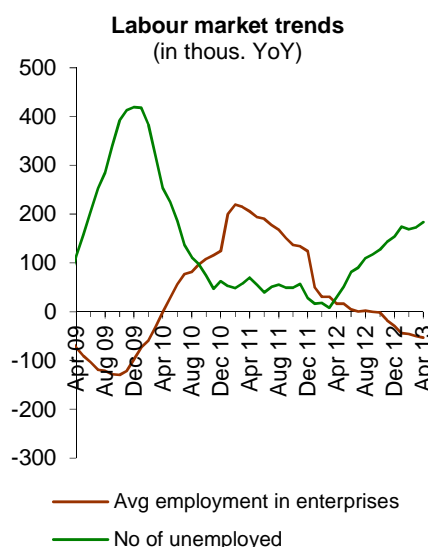
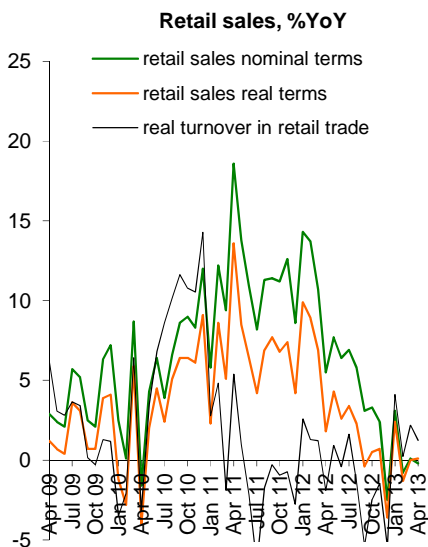
Retail sales contracted in May by 0.2%YoY, precisely in line with our forecast, but below market consensus (+1%YoY). Results of sales were undermined, among others, by effect of earlier Easter – this year the pre-holiday shopping was conducted entirely in March, which is confirmed by behaviour of sales in categories: food and other sales in non-specialised stores (strong increase in March and decline in April). What is interesting, some other categories recorded an opposite tendency – a significant improvement in April after weak results in March. This is mainly visible in clothing and footwear (this may have been due to prolonged winter, which postponed the refreshment of garments), but also in furniture, radio, TV and household appliances, press and books as well as other goods. Rebound was recorded also by car sales, but this was mostly due to low base effect. According to our estimates, retail sales ex autos and fuels climbed in April by 0.7%YoY, as compared to 1.6%YoY in March. Retail sales advanced in real terms by 0.1%YoY, which means a deflation of retail goods' prices in annual terms (-0.3%YoY) – for the first time since end of 2006.

Even when take into account the effect of Easter, April's data on retail sales confirm weakness of consumer demand at the beginning of 2Q. Yesterday the CSO released data on quarterly non-financial sector accounts showing that households' saving rate rose sharply in 2H2012. We suspect this tendency is continued also in 1H2013 and constrains pace of consumers' spending (even despite an improvement in pace of real growth of disposable income due to sharp decline of inflation). Such circumstances clearly do not pose a threat for an increase of inflationary pressure and leave door open for more rate cuts by the MPC.

### Unemployment declines, but labour market situation not improving

In April the unemployment rate declined to 14.0% from 14.3% in March, in line with our expectations. The drop of unemployment is typical for April and is usually due to seasonal factors as improvement of weather in spring supports employment in construction and agriculture. However, data show that this effect was weaker than in past years – in corporate sector employment in construction decreased in April on monthly basis for the first time for over 10 years. Additionally, part of the decline of unemployment rate may be attributed to intervention to Ministry of Labour. Despite these actions, the situation on the labour market still deteriorates – the increase of number of unemployed accelerated to 8.8%YoY from 8.1%YoY a month earlier and the annual change of the unemployment rate increased to 1.1pp from 1.0pp.

In the upcoming months unemployment rate will be still declining due to seasonal factors, but in annual terms we will be observing an acceleration of its increase, reflecting further deterioration of labour market conditions.



**Maciej Reluga Chief Economist**

+48 22 586 8363

Email: ekonomia@bzwbk.pl

**Piotr Bielski** +48 22 586 8333

**Agnieszka Decewicz** +48 22 586 8341

**Marcin Luziński** +48 22 586 8362

**Marcin Sulewski** +48 22 586 8342

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