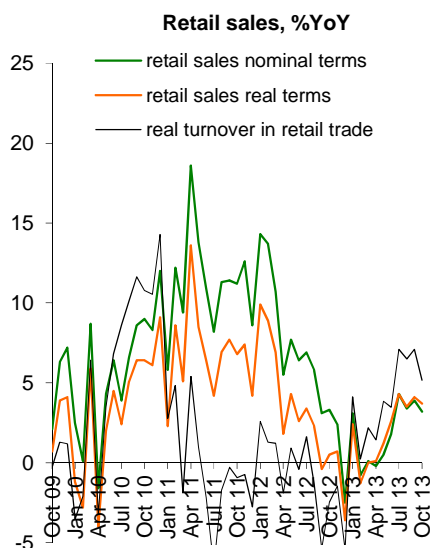


INSTANT COMMENT

26 November 2013

Gradual improvement of consumption and labour market situation

In October, retail sales decelerated somewhat to 3.2%YoY, while unemployment rate was flat at 13.0%, in line with our expectations. Despite slight decline of retail sales' growth rate, these data show a continuation of improvement in consumer demand, supported by improving labour market situation and rising real disposable incomes. These figures are in line with our scenario of economic recovery, suggesting that GDP growth acceleration is not only due to exports, but also to domestic demand. Today's release was neutral from the MPC's point of view, which decided to extend its forward guidance until mid-2014 in November. Our baseline scenario remains unchanged – we are expecting the first hike in 3Q2014. Data on retail sales and unemployment rate did not affect the financial markets.



Gradual improvement in private consumption

In line with our expectations, annual pace of retail sales growth decelerated to 3.2%YoY from 3.9%YoY in September, in contrast to market consensus at 4.3%YoY. In monthly terms, retail sales increased by 3.6%, mainly due to improvement in autos (+14.6%) and others (+9.1%), while furniture and household appliance contracted by 1.7%. In real terms, retail sales increased by 3.7%YoY.

Volumes in retail trade turnover also showed some deceleration in October, to 5.1%YoY from 7.1%YoY a month earlier (data after revision).

October's retail sales data are in line with our baseline scenario, assuming a gradual revival in private consumption supported by, among other factors, improvement in the labour market and real growth of households' disposable income. In coming months we expect retail sales growth to accelerate. However, the first signals of improvement in consumer demand were observed in 3Q 2013, and this should be confirmed by final 3Q GDP, which will be released on Friday (29.11). We expect 4Q2013 to bring a further continuation of positive tendencies in Polish economy, showing that accelerating GDP growth is not only due to exports, but also due to domestic demand supported by private consumption and improvement in investment.

Labour market getting better

The registered unemployment rate stayed at 13.0% in October, level seen in previous two months and in line with our and market expectations. Data clearly show a continuation of positive tendencies – number of newly registered unemployed declined (by 6.9%YoY) amid substantial increase of those who have found a job (+18.1%YoY). The number of unemployed is only by 4% higher than a year ago (lowest percentage increase since May 2012). In monthly terms the number of unemployed declined by 8k to 2075.2k. We were supposing that this drop was supported by convenient weather conditions that would support seasonal activities, for example in construction and assembly. However, detailed data on corporate sector showed that employment in construction declined slightly and a substantial improvement was recorded in manufacturing and trade. These data confirm strengthening of positive tendencies developing in the labour market. We expect some pick up of the unemployment rate due to seasonal factors and it should reach 13.7% at the end of the year.

Similar picture of the labour market situation is drawn by LFS survey in 3Q2014. According to this report, in Q3 number of employed people was higher than one year ago (+0.1%), and number of jobseekers was lower (-0.2%), which translated into declining unemployment rate (9.8% vs. 9.9% in 3Q2012). Let us note that headline data on employment in corporate

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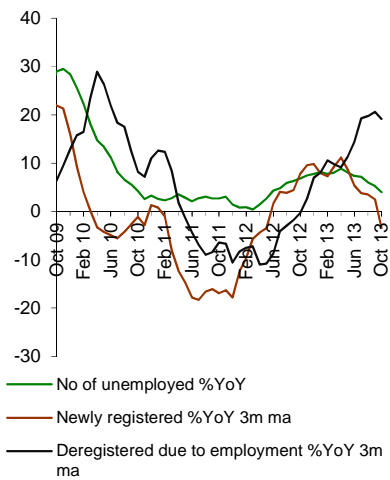
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Labour market trends



sector and on registered unemployment rate were still weaker than one year ago at the beginning of Q4 (despite quick improvement). Meanwhile, LFS data (which comprise whole economy) were better than one year before already in Q3, which is suggesting that the economic situation may be improving faster than it is suggested by monthly data.

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