INSTANT COMMENT

24 January 2014

Retail sales up, unemployment down

Growth rate of retail sales accelerated to 5.8%YoY, but was below expectations. Data confirmed a further gradual recovery of consumer demand, which was supported by slightly faster-than-expected labour market improvement (seasonal rise of unemployment rate to 13.4% in December was lower than expected). After disappointment about December's data on output and retail sales we are estimating that GDP growth in 4Q2013 may have been slightly lower than we assumed earlier (an amounted to 2.5%), but this does not considerably change our expectations about recovery in the upcoming months. These numbers will not change the MPC rhetoric, as it is awaiting March's new inflation and GDP projection.



Retail sales are accelerating

Growth rate of retail sales accelerated in December to 5.8%YoY. Similarly as in case of industrial and construction output, the reading was below market expectations (our forecast 7.4%YoY, consensus 7%YoY), but at the same time it was the highest growth rate in many months (since August 2012). In real terms sales advanced by 5.9%YoY, i.e. at the fastest pace since March 2012. Retail price deflator is still slightly negative (-0.1%YoY), but at the same time it is visible that consumer demand is gaining strength and this should be supportive for gradual hikes in the upcoming quarters. According to our estimates, in the whole 4Q2013 retail sales advanced by 4.5%YoY, at the highest rate in almost two years.

The factor with most significant impact on retail sales growth acceleration in December was a sharp rise in car sales (28.8%YoY – almost twice as fast as in November). This is interesting, as one could have expected that some demand in this segment would be postponed until January due to VAT tax deductions coming into life at the start of 2014. Possibly, as in previous months, the sales were boosted by demand of foreign customers (cars purchased in Poland and re-exported, for example to Germany). At the same time, positive surprises appeared in data about sales of furniture and household appliances (10.6%YoY vs. 2% in November), press and books (5.2%YoY vs. 1.8% in November) and other sales (4.3%YoY vs. -1.4%). On the other hand, sales of clothing and footwear clearly decelerated (8.5%YoY vs. 18.9% in November), but this could have been the effect of unusually warm weather, as there was still no need in December to buy warmer clothes. According to our estimates, retail sales excluding cars and fuels advanced in December by 3.8%YoY versus 3.4%YoY in November. Acceleration was recorded also by retail trade turnover (which does not include car sales, but covers small shops hiring less than 10 people) – in December it expanded by 6.5%YoY and by 6.0%YoY in Q4.

Let us remind that the December's retail sales were positively affected by low statistical base effect due to the fact that direct payments for farmers were postponed in 2012 and this shifted their demand from December 2012 to January 2013. The very same factor will undermine reading for January 2014.

All in all, the lower-than-we-expected data on retail sales and output in December lead to slight downward revision of our Q4 GDP growth estimate to 2.5% but do not alter the overall pace of an economic revival in coming quarters.

The unemployment rate below forecasts

The rate of registered unemployment increased in December 2013 to 13.4% from 13.2% in November, less than we and the market expected (13.5%). Rebound of unemployment is typical for the last month of the year as demand for labour diminishes amid fewer seasonal

ECONOMIC ANALYSIS DEPARTMENT:

| ul. Marszałkowska 142. 00-061 Warszawa fax +48 22 586 83 40 | |
|---|-------------------------------|
| email: ekonomia@bzwbk.pl | Web site: http://www.bzwbk.pl |
| Maciej Reluga (Chief Economi | st) +48 22 534 18 88 |
| Piotr Bielski | +48 22 534 18 87 |
| Agnieszka Decewicz | +48 22 534 18 86 |
| Marcin Luziński | +48 22 534 18 85 |
| Marcin Sulewski | +48 22 534 18 84 |

 TREASURY SERVICES:

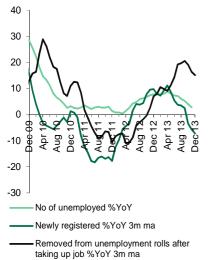
 Poznań
 +48 61 856 5814/30

 Warszawa
 +48 22 586 8320/38

 Wrocław
 +48 71 369 9400







jobs. However, this was the smallest increase of the unemployment rate in December since 2007. Number of unemployed reached 2.16m, 1% more than a year ago. This was the lowest annual increase of number of unemployed since March 2012. In December 2012 the unemployment rate was at 13.4% too and it is worth to notice that in January 2013 unemployment rate reached 14.2% and was 1pp higher than in previous year. Detailed data show the continuation of positive tendencies observed in recent months – falling number of newly registered jobseekers on an annual basis and rising number of those who have found a new job. This shows that the decline of unemployment is generated mainly by revival of demand for labour. We expect this factor to strengthen in coming months and this will drag the unemployment rate down in annual terms. We expect the unemployment rate to reach 12.5-13.0% at the end of the year.

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. Information presented in the publication is not an investment advice. 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 relance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. 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. Rates Area, Economic Analysis Department, ul. Marszałkowska 142, 00-061 Warsaw, Poland, phone +48 22 534 18 88, email ekonomia @byokk.pl.