

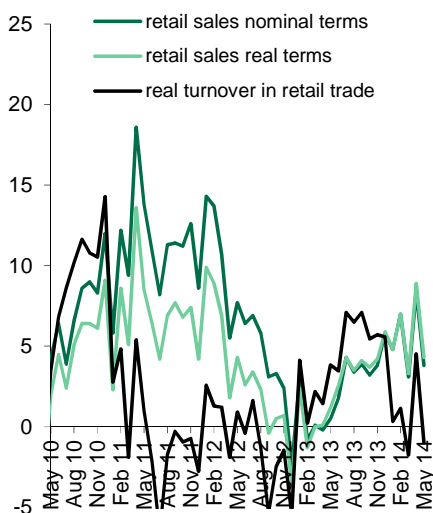
# INSTANT COMMENT

26 June 2014

## Retail sales below expectations

Retail sales in May were lower than expected and climbed by 3.8%YoY. Unemployment rate fell in line with expectations to 12.5%. A series of negative surprises from recent releases triggered worries about possible deceleration of economic growth. However, according the deputy governor of the Central Statistical Office the GDP growth in Q2 may be a bit higher than in Q1. Cut of interest rates in July seems unlikely for us, as in June the Monetary Policy Council kept its declaration that rates will be stable until end of Q3. However, we cannot rule out that the MPC may drop its forward guidance at the upcoming meeting (which was suggested by a few MPC members).

Retail sales, %YoY



### Car undermined sales

Retail sales advanced in May by 3.8%YoY as compared to 8.4%YoY in April and 3.1%YoY in March. This result was considerably below market expectations (above 6%YoY) and our forecast (5.4%YoY).

Sales were dragged lower mainly by declining purchases of cars – after very strong gains in the first quarter due to last chance to take advantage of tax allowances on purchases of transport cars. Sales of cars declined strongly for the second month in a row (this time by 12.2%MoM), stronger than we expected. Additionally, as compared with April, food sales weakened considerably but this was no surprise as it was due to Easter effect in April. Other categories showed upward tendencies (excluding furniture and household appliances). At the same time, data on turnover in retail trade (comprising units hiring less than 10 people but excluding car sales) were weak as well and declined by 1.0%YoY in May versus an increase of 4.5% in April.

Retail sales in real prices amounted to 4.3%YoY, which means that prices in stores are still falling at c-0.5%YoY.

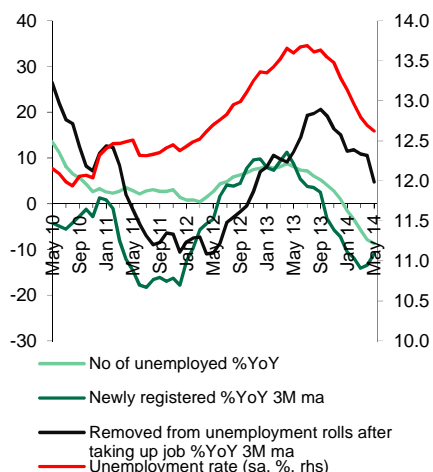
Data on sales are another negative surprise in the last series of monthly macroeconomic releases. Rising incomes of households should support faster growth of consumption further in the year, but as for the time being the recovery of demand is paltry and generates no price pressure.

Weaker data on industrial production and retail sales may trigger worries about the pace of GDP growth in 2Q14. However, in our opinion, Polish economy should keep growing slightly above 3%YoY. Even if domestic demand slows gradually in Q2 (among others due to correction in investment growth, after significant improvement in Q1 due to one-off effects) it should be balanced by improvement in net exports. Interestingly, deputy president of Statistical Office Halina Dmochowska said that Polish 2Q14 GDP growth could be slightly more favourable than in 1Q14.

### Slower pace of decline in unemployment

In line with expectations, in May registered unemployment rate fell to 12.5%. Number of unemployed people was by 8.7% lower than in the previous year (vs -7.8%YoY in April), but in our opinion these data have started signalling that positive tendencies on the labour market slowed down. For example, number of newly registered unemployed people declined in May by 5.4%YoY vs. two-digit falls in January-April period. On the other hand, number of persons removed from unemployment rolls due to taking up job were lower than in the same period of 2013. This slowdown partly came from base effect (as one year ago labour market started to rebound), however, seasonally adjusted data also show that the rebound is not as strong as in February or March. All in all, we still are still expecting a further decline in

Labour market trends



#### 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 Economist) +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

registered unemployment rate, but downward trend will be not as strong as in the previous months.

**Business climate has continued to improve**

Business climate indices (seasonally adjusted) improved in June in nearly all sectors after temporary decline in May. It clearly suggests that positive tendencies in economic activity have continued. What is more, it also confirms that deceleration in confidence in May mainly resulted from worries over tensions between Ukraine and Russia.

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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@bzwbk.pl](mailto:ekonomia@bzwbk.pl), <http://www.bzwbk.pl>.