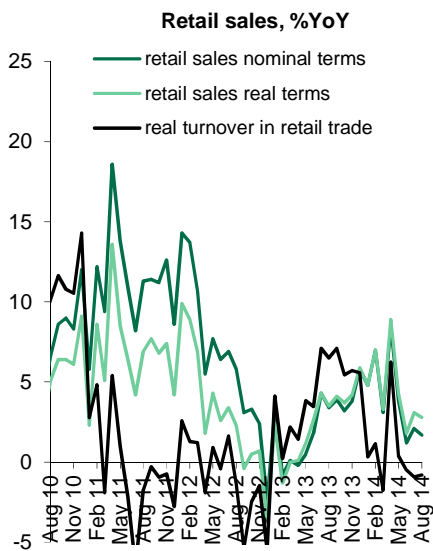


INSTANT COMMENT

23 September 2014

Retail sales slowing down

Retail sales slowed in August to 1.7%YoY, which was in line with our expectations and above market consensus. Slower growth mainly came from sharp decline in sales of motor vehicles. The data are in line with our outlook for upcoming months. We foresee some rebound in sales growth, supported by still good situation on labour market and gradual growth of real households' income. As we expected, the registered unemployment rate fell in August to 11.7%. We predict that next two months will bring some stabilisation, while unemployment rate will start rising in further months in line with seasonal pattern, slightly above 12% at end of the year. Recent macro data clearly support our expectations that the MPC will re-open monetary easing cycle in October. In our opinion, the Council will cut rates by 75bp in total in the next three months.



Retail sales in line with our expectations

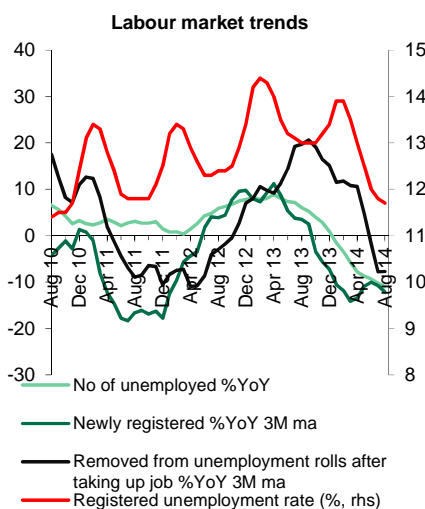
Annual growth of retail sales slowed down in August to 1.7%YoY (down from 2.1%YoY in July), in line with our expectations and above market consensus (1.3%). In real terms retail sales added 2.8%YoY as compared to 3.1%YoY one month before. Car sales fell in monthly terms by 15.1%, while clothing and footwear as well as furniture and household appliances surprised to the upside (rise by 4% and by 6%, respectively). According to our estimates, growth of retail sales excluding cars remained quite stable at 2.2-2.4%YoY over the last few months.

The CSO informed also that retail trade turnover declined in August by 0.8%YoY (after declining by 0.9%YoY in July). Seasonally adjusted figures showed an increase by 1.1%YoY after falling by 1.2%YoY one month ago.

Today's data on retail sales are in line with our scenario for the upcoming months. We are expecting a gradual improvement of retail sales, which should be supported by good labour market situation and rise in households' real disposable incomes. This, in our view, should support further gradual improvement of private consumption in the upcoming quarters.

Labour market still in a good shape

The registered unemployment rate declined in August to 11.7% from 11.8% (the stat office revised data for the previous month down), in line with estimate of the Ministry of Labour and our forecast. The number of unemployed dropped by 25.3k MoM, much more than a year ago (9.9k) when the recovery in the labour market was just starting. However, it is worth to notice that stronger reduction in the number of the unemployed was mainly due to lower number of registrations (redundancies) while the number of removed from the unemployment rolls was lower than a year ago. This means that the pace of both job creation and destruction decelerated. In general, these data show that the labour market is still in a good shape and this should support private consumption in the second half of the year. We expect stabilization of the unemployment rate in the next two months and then a rebound in line with the seasonal pattern to slightly above 12% at the year end.



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