

INSTANT COMMENT

23 December 2014

Ambiguous signals from consumer sector

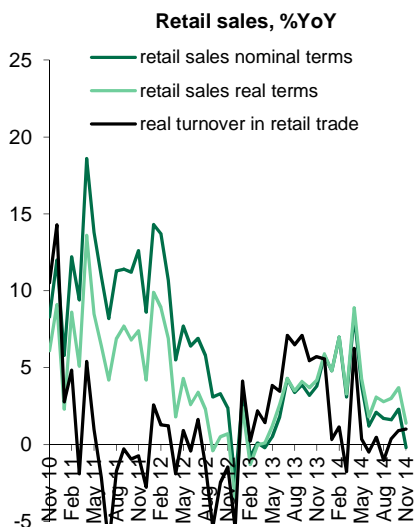
November's retail sales clearly disappointed – in nominal terms it fell 0.2%YoY and in real terms rose merely 1.4%YoY, which was the worst result in six quarters. What is interesting, other signals from consumer sector are evidently positive – situation in the labour market keeps improving, which is triggering a rise in households' real income, clear improvement of consumer sentiment and of business climate in retail trade. It is possible that private consumption growth in 4Q14 will be again (similarly as in 3Q15) much better than implied by retail sales data. Falling prices of basic goods (food, fuel) and lower interest rates will give additional boost to consumption growth in coming quarters, so we expect that growth in this sector will remain quite strong, supporting the economy in the period of temporary export weakness. Unemployment data for November confirmed that situation in the labour market has been improving.

Not as bad as sales suggest

Retail sales decreased in November by 0.2%YoY in nominal terms, while in real terms the growth amounted to 1.4%YoY. The result was much below readings from previous months and significantly below expectations, as the median of market forecasts for nominal growth amounted to c2%, while our estimate was at 2.4%. The most considerable decreases of nominal sales growth were recorded in case of fuels (-8.4%YoY), auto vehicles and parts (-7.6%YoY) and in the category of "others" (-7.5%). As compared to our forecasts, the sale of food and beverages, as well as medicines and cosmetics were also weaker.

Today's data on retail sales is a kind of puzzle in the context of other signals concerning the consumers' demand, especially given the acceleration of private consumption in the first three quarters of this year. The question is, therefore, whether a substantial improvement in the labour market (as suggested also in today's data on unemployment – see below) will continue to support the economic growth in a more challenging environment for Polish exports. It is worth to notice, however, that all pieces of information from the consumer sector, except of retail sales data, are very positive indeed. Households' real wage bill is growing at the pace of 4-5%YoY and consumers' moods have been improving (in December consumer confidence indicator was back at the level from 2008). What is more, business climate index in retail segment is improving as well – according to the stat office's data released today, the seasonally adjusted indicator rose in December to +3pct, which is the highest level since October 2008. It has to be remembered that data on retail sales are sometimes not a good proxy for the overall growth in consumption. This is, among others, due to the fact that they are for shops employing more than 9 people. Additionally, they do not cover consumers' spending on services other than retail sales. It is worth to notice that statistics on retail trade (which include smaller shops, though excluded car sales, in the last two months showed a moderate rebound after six months of stagnation.

As we wrote in the [latest MACROscope](#) with 2015 Outlook, strong decline of food and fuel prices as well as lower interest rates will be a strong support for consumption in the coming quarters. According to our estimates, decline of fuel prices by 10% in 2015 as compared to 2014 will help households set aside more than PLN5bn of their disposable income thanks to lower fuel spending; lower interest rates will help consumer save over PLN4bn on debt servicing costs. This means more money to spend for other goods and services. In total, these two factors can boost private consumption by an additional 1 percentage point (provided that propensity to save does not rise, which does not seem highly possible given low interest rates). Thus, we think that prospects of private consumption for the upcoming quarters are better than recently suggested by retail sales data.



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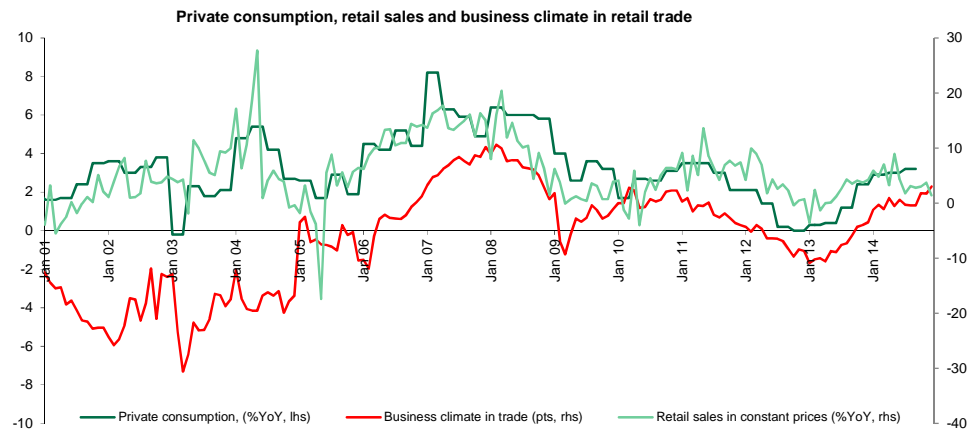
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Unemployment slightly up due to seasonal factors

Registered unemployment rate climbed in November to 11.4% from 11.3% in October and was by 1.8 percentage points higher than one year ago, which is the most considerable decline in annual terms since 2008. In monthly terms, the number of jobseekers increased by 14.7k, which is the best November's reading since 2007 (increase in number of jobseekers is typical for November and is due to seasonal factors). Total number of unemployed reached 1799.5k, i.e. by 15% less than a year before.

Detailed data confirmed that the labour market is still in a good shape, especially as regards keeping the existing workplaces: number of newly registered jobseekers amounted to 213.2k, i.e. by 7.2% less than one year before. Number of the unemployed removed from the unemployment rolls amounted to 198.4k, i.e. by 5% more than a year earlier. On the other hand, number of the unemployed removed from rolls due to taking up a non-subsidized job showed a drop by 7.1%YoY (82.5k as compared to 88.8k in November 2013). Meanwhile, the number of job offers remained high (56.4k vs. 38.5k in November 2013), which can suggest, that companies are running out of possibilities to hire people from the current pool of unemployed.

Intervention of the Labour Ministry has put some positive effect on unemployment statistics (number of people hired in subsidized jobs and sent to training amounted to 30.4k vs. 18.7k one year before), but it was not crucial. We expect a further decline of unemployment in the upcoming months, yet its pace may decelerate somewhat. According to our forecast, the registered unemployment rate will show 11.5% in December 2014 and 10.9% in December 2015. The low and declining unemployment will be a positive factor for forecasts of the private consumption.

