

# INSTANT COMMENT

27 January 2015

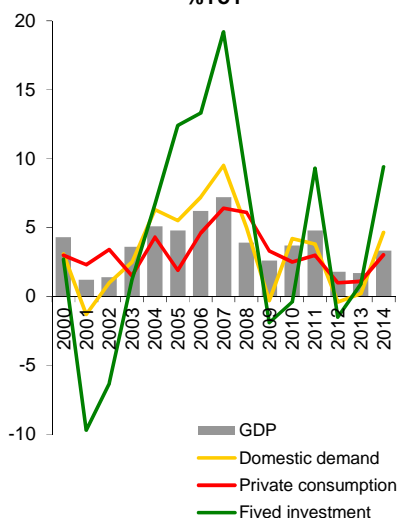
## Growth slightly slowed down in 4Q2014

According to the fast estimate, Polish GDP expanded 3.3% in 2014 in real terms, in line with expectations and faster than in the two previous years. The growth was driven by the domestic demand, mainly private consumption (+3.0%) and investments (+9.4%) while the contribution of net exports was negative. Our estimate for 4Q shows that the Polish economy slowed down to 3.1% YoY from 3.3% YoY in 3Q, just like we had been expecting so far. We assume the deceleration may continue into 1Q15 but this should be only marginal and short-lived and followed by gradual acceleration due to the recovery in the euro zone that will support demand for Polish exports.

Retail sales increased 1.8% YoY in December 2014, below consensus. In real terms, sales increased 4%, most since May 2014. Improvement in the labour market, real disposable incomes growing at decent pace should continue to support retail sales in the coming months. At the same time, the unemployment rate increased to 11.5% in December from 11.4%, but this is a seasonal phenomenon. However, this year this effect was the weakest since 2007 (on monthly basis) and the unemployment rate dropped 1.9pp on the annual basis (by most since 2008). Data on the unemployment confirm further improvement in the labour market.

Today's data (mainly the GDP estimate) do not provide dovish MPC members with new arguments. However, given our inflation forecasts (deepening of deflation in 1Q2015) we think that the MPC will cut rates by 25bp in March.

Growth of GDP and components, %YoY



### GDP growth most likely slowed down in Q4

According to Central Statistical Office's flash estimate, Polish GDP growth in 2014 added 3.3% in real terms, in line with expectations and faster than in last two years (2013 – 1.7%, 2012 – 1.8%). Domestic demand proved to be the main engine of growth, fuelled by private consumption (rise by 3.0%) and investment (rise by 9.4%) amid negative contribution of net exports. As regards supply side, acceleration was recorded in construction (4.7% vs. 1.0% in 2013), trade (3.4% vs. -0.2%) and transport (3.6% vs. -0.1%), while industry decelerated (3.6% vs. 4.9%).

Our estimate for 4Q shows that the Polish economy slowed down to 3.1% YoY, as compared to 3.4%, 3.5% and 3.3% in the previous quarters, respectively. Private consumption most probably decelerated a bit, to 3.0%YoY vs. 3.2%YoY in Q3, similarly as investment, which slowed to 8.8%YoY from 9.9%YoY, while net exports' contribution was similar as in Q3 (-1.5pp). We were expecting some acceleration of private consumption and deterioration of contribution of net exports.

We assume the deceleration may continue into 1Q15 but this should be only marginal and short-lived, as optimism of domestic consumers and entrepreneurs is improving, labour market situation is positive and real disposable incomes are expanding at a solid pace, which will support the domestic demand, stabilizing the GDP growth close to 3%YoY. In the following quarters we expect a gradual acceleration due to the recovery in the euro zone that will support demand for Polish exports.

### Sales rebound after weak November

In December 2014, retail sales increased 1.8% YoY, below consensus (2.2%), above our forecast (1.2% after the adjustment) and vs. -0.2% YoY in November. In real terms, sales increased 4% YoY, strongest since May 2014. On the monthly basis, sales grew 19.6% (most since December 2011) mainly on the back of significant acceleration in newspapers, book and other sale in specialized stores (nearly 40%), textiles, clothing and footwear (30.2%), food, beverages and tobacco products (28.3%). In line with expectations, sales of

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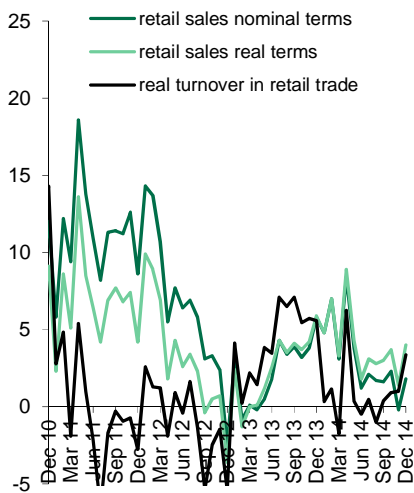
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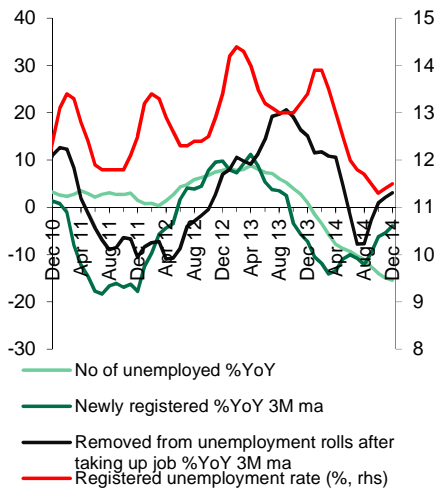
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## Retail sales, %YoY



## Labour market trends



autos also gained steam (to 13.3% YoY from -6.7% YoY in November). At the same time, sales in furniture, TV, radio and household appliance dropped by 3.3% YoY, the most since February 2010 and this may be somewhat worrying. In our opinion, however, this is only a temporary slowdown and sales in this category should improve in the coming months.

In the whole 4Q, retail sales increased 1.3% YoY vs. 1.8% YoY in 3Q. In real terms, pace of sales growth stayed at 3% YoY, just like in 3Q. Current situation in the labour market and continued increase in real disposable incomes should support sales in the coming months. We expect retail sales to accelerate to c.5% YoY in 2015 from c.3% YoY in 2014.

**December's unemployment rate increased, but at the slowest pace in 7 years**

As expected, registered unemployment rate increased in December 2014 to 11.5%, from 11.4% in November. Growth of unemployment rate at the end of the year is a seasonal pattern, but in 2014 it was the lowest in monthly terms since 2007. Moreover, in annual terms, the unemployment rate declined by 1.9 percentage points and that was the most considerable decline since 2008. In general, unemployment data show that labour market is in good shape, but increase in number of newly registered unemployed could be a bit worrying, showing +0.9%YoY and being positive for the first time after 16 months of decline. On the other hand, the number of persons removed from unemployment rolls after taking up job increased quite significantly. Notwithstanding, continuation of upward trend in number of newly registered unemployed in coming months could suggest that positive tendencies on the labour market are cooling down. We expect further decrease in registered unemployment rate in months to come (after seasonal adjustment) to 10.9% at the end of 2015.

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