ECONOMIC COMMENT

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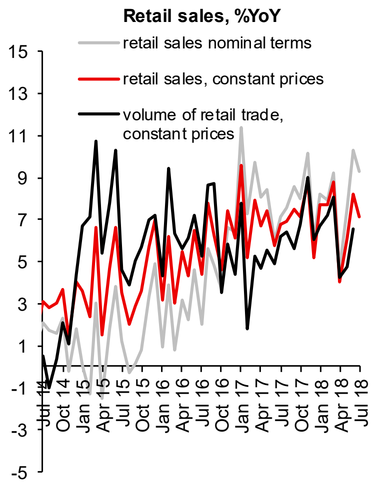
Sales below forecast, but still not bad

Retail sales advanced by 7.1% y/y in real terms in July, below forecasts and June's result. However, in our view the data bring no reason to worry – retail sales remain strong, supported by a quick rise in disposable incomes and we are expecting this situation to hold. Private consumption should remain one of the main drivers of economic growth in 2Q18.

Companies' financial results showed a rise in investment outlays by 13% y/y in 2Q, twice as fast as in 1Q18. This reveals a potential for an upward surprise in investment in 2Q18.

Piotr Bielski
tel. 22 534 18 87
piotr.bielski@bzwbk.pl



Marcin Luziński
tel. 22 534 18 85
marcin.luzinski@bzwbk.pl

Retail sales slightly lower than expected

Retail sales in July rose 7.1% y/y in constant prices, below market consensus (7.4%) and our forecast (7.6%). The result was also below June's level (8.2% y/y), but exactly in line with the average for the first half of the year. The monthly change in July retail sales (0.2% m/m in constant prices) clearly departs negatively from the seasonal pattern, but the fact is that the two previous months were unusually strong, so we would not draw strong conclusions from this slight disappointment. Moreover, weaker retail sales results (mainly in categories like food and beverages and non-classified sales) could have been caused by higher number of people going for holiday trips this year – this refers to holidays abroad and also partly to domestic trips (shopping in small shops on the countryside not entering into retail sales data). It is also possible that consumer behaviour is still in a process of adjustment to Sunday retail trade ban, introduced earlier this year. In our opinion the pace of growth of retail sales remains decent, supported by fast growth of households' disposable income. We think the private consumption should continue growing at c.5% y/y, remaining one of the main engines of Poland's economic growth.

The nominal retail sales growth hit 9.3% y/y, thus the sales deflator jumped to 2.1% y/y, the highest since October 2013. Moreover, the sales deflator rose above CPI inflation for the first time in at least 6 years (at the start of the year it was almost 1.5 pp lower). However, faster growth of prices in retail trade is mostly due to rising fuel prices (their weight in retail sales deflator is three times higher than in CPI basket), while other sectors show rather muted price tendencies.

Profitability of Polish firms lower, investments accelerated

In 2Q18, revenues of Polish companies employing at least 50 people rose 8.3% y/y and costs by 9.0% y/y. Wage bill rose 11.2% y/y, the fastest pace for at least five years and labour costs added 1.7pp to the overall costs. Remaining cost categories also rose, particularly materials (10.5% y/y), energy (9.3% y/y) and external services (7.9% y/y). Costs rose faster than revenues for the second quarter in a row (last time we have saw similar situation in 2013) which triggered the decline in profitability to 5.4% from 6% in 2Q17. We think that the cost pressure will persiost and further drop of profitability will finally translate into higher growth of final prices.

Data about investments in the biggest companies showed growth by 13% in 2Q13 (two times faster than in 1Q). The fastest growth was recorded in transportation and storage, water supply and waste management, mining. This generates an upside risk to our estimate suggesting that in 2Q total investment growth in the national economy was a touch below 1Q figure.

ECONOMIC ANALYSIS DEPARTMENT:
al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40
email: ekonomia@bzwbk.pl Web site: http://www.bzwbk.pl

Piotr Bielski	+48 22 534 18 87
Marcin Luziński	+48 22 534 18 85
Grzegorz Ogonek	+48 22 534 19 23
Konrad Soszyński	+48 22 534 18 86
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

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Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854, Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.