Bank Zachodni WBK

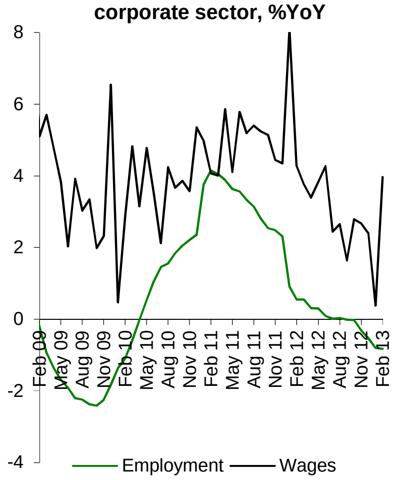
Instant comment

Wages higher, core inflation lower

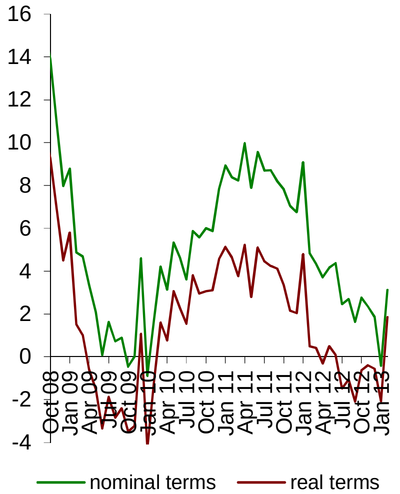
18 March 2013

Wage growth in corporate sector accelerated in February to 4%YoY, while employment fell by 0.8%YoY. Higher than predicted wage growth was mainly the effect of low statistical base. In line with expectations, February saw further fall in core inflation, although the pace of decline proved even faster than we expected. Situation in the labour market is still weak – in the nearest months the growth in employment will remain below zero amid still very limited growth in wages. On the other hand, real wage bill growth accelerated, in line with expectations. Still, we believe than private consumption growth will be capped by rising households' saving rate. Publication of data from the labour market triggered a slight correction in the short end of the yield curve. From the MPC's point of view the data do not change interest rates outlook – we expect that the Council will keep main interest rates on hold in April. The key for the Council, as said one of its members, will be economic data for March.

Employment and wages in corporate sector, %YoY



Wage bill in corporate sector, %YoY



Wage growth inflated by base effect, employment still falling

In February the pace of wage growth accelerated to 4%YoY (from 0.4%YoY a month earlier), above our and market forecasts (at 3.4%YoY and 2.7%YoY, respectively). The rebound of wages after their visible deceleration in January was due to the base effect from the past year. In February 2012 a hike in pension contribution was coming into life, and thus some companies have paid a part of February's wages already in January (consequently, in January 2012 the level of paid salaries was artificially high, which was followed by clearly lower payments in February). Thus, the volatility of annual pace of wages in the first two months of 2013 does not really show the underlying trend in wages. In our opinion, it is better to look at average pace of annual wage growth for January-February period, which was at 2.2%YoY vs. 2.5%YoY on average in the last two months of 2012.

Data on employment in enterprise sector was in line with our expectations. The employment amounted 5,494.4k, less by 0.2% compared to January 2013 and 0.8% on annual basis. The scale of reductions of workplaces does not abate despite some improvement recorded in employment subindex in the PMI survey. In February 9k of workplaces were closed vs. January (a year ago the reduction reached 8k) and in our opinion this might have been due to redundancies in construction and manufacturing sector (details will be released by the CSO on Friday).

The wage bill in corporate sector was – just like wages – distorted by statistical base effect. Consequently, the strong acceleration in February is not as important as the fact that real pace of growth in two first months of 2013 (-0.1%YoY) was above the average for Nov-Dec'12 (-0.5%YoY).

To sum up, today's data from the labour market are in line with our mid-term scenario. We expect the pace of wages growth to return to the trend and stay around 2%YoY. In the upcoming months the annual pace of employment growth will remain negative and signals of higher demand for labour may be recorded in 2H at earliest. Visible decline of inflation will, as we expected, support the real pace of wage growth, but higher saving rate will constrain the pace of improvement in private consumption in coming quarters.

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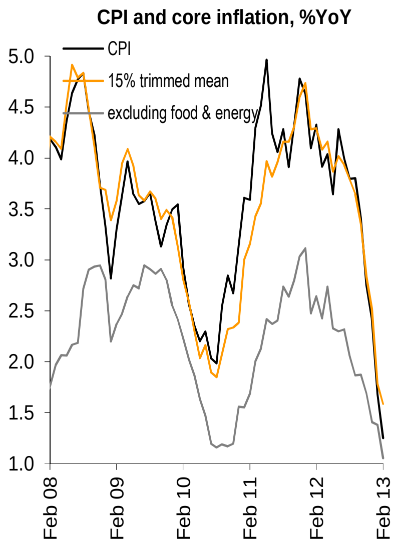
Core inflation following downward trend



In February all measures of core inflation declined. Two measures out of four were below the lower end of acceptable fluctuations bank around the NBP's inflation target. Core inflation excluding food and energy prices fell to 1.1%YoY, down from 1.4%YoY in January, reaching the lowest level since the end of 2007. We expect core inflation to continue moderate downward move in coming months, in which CPI excluding food and energy prices will decline below 1%. We think that the second half of this year might bring a gradual increase in the underlying inflation measures.

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