

INSTANT COMMENT

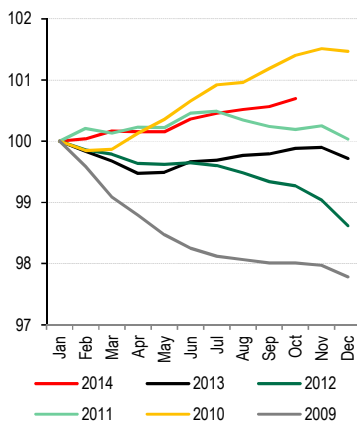
19 November 2014

Employment and wages keep growing

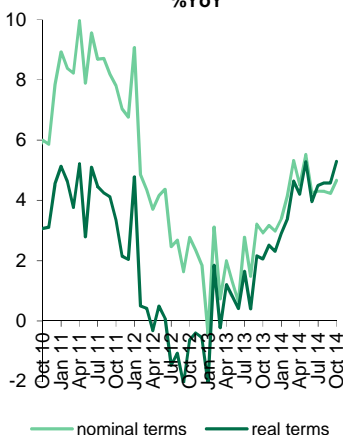
Average employment in corporate sector increased in October by 0.8%YoY, at the same pace as in September, while average wage growth accelerated to 3.8%YoY (highest since May). Data were better than expected, showing that situation in the Polish labour market continues improving. The fact that companies are hiring reflects, in our view, persistently high investment growth in the private sector. Interestingly, despite sub-zero inflation, salaries keep rising at a decent pace, boosting real labour income. This should help maintaining private consumption growth at a moderate level, around 3%YoY, in the near term. Both investment and consumption growth should be partly offsetting impact of slowing external demand on Polish economy. While it is positive for our short-term GDP forecasts, it seems quite obvious that domestic demand alone would not be able to prevent Polish economy from slowing down in the medium run if external environment does not improve.

Together with better than expected 3Q GDP, the labour market data join the list of factors decreasing chances for interest rate cut in December. We predict that tomorrow's data on industrial production will be also better than expected by the market, which may imply further correction in the Polish interest rate market.

Employment in corporate sector
(Jan=100)



Wage bill in corporate sector,
%YoY



Average employment in corporate sector increased in October by 0.8%YoY, at the same pace as last month, which was in line with market consensus and slightly above our forecast. As compared to September the number of jobs rose by 7 thousand, which is a quite good result for this part of the year. To some extent this could be weather-related effect as for the better part of October we had very good weather conditions. But in general we think that there is a clear revival in companies' demand for labour in the last few months and the fact that firms are hiring reflects the broader trend of robust investment growth in the private sector. This is consistent with persistently high growth of corporate credit in the banking sector (investment loans in particular). Apparently, Polish firms remain quite optimistic about the economic outlook, despite the global uncertainty and upsetting news from the world economy.

Average wage growth accelerated in October to 3.8%YoY, which was clearly above forecasts. Salaries are growing despite a clear downward trend in CPI, which signals that companies may be facing increasing problems with finding skilled labour force, even despite the unemployment rate in Poland is still at relatively high level by international standards. This seems to be confirmed by anecdotal evidence we hear at meetings with our corporate clients. Still, we cannot be sure if this trend will be persistent, especially in the environment of declining commodity prices, negative CPI and PPI inflation, and still poor performance of European economy.

As far as it goes, decent nominal wage growth and declining CPI result in significant acceleration of real growth of labour income. According to our estimates, real wage growth accelerated in October to 4.5%YoY, and growth of real wage bill (average salary times average employment) reached 5.3%YoY. In both cases these were the biggest gains since January 2009. Rising purchasing power of households will keep supporting private consumption growth in the near term, and softening the negative impact of external demand slowdown on Polish GDP growth. However, if the external environment does not start improving, trends in the domestic market will start deteriorating as well. Thus, growth in the euro zone economy remains the key factor economic outlook for Poland in the medium run.

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