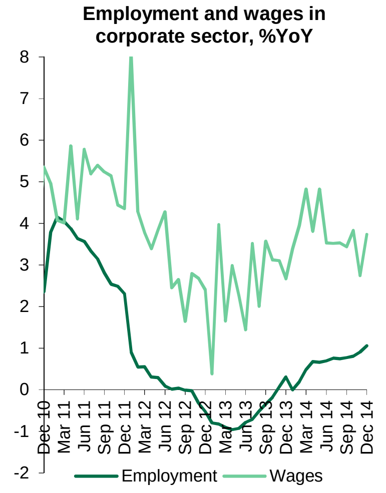
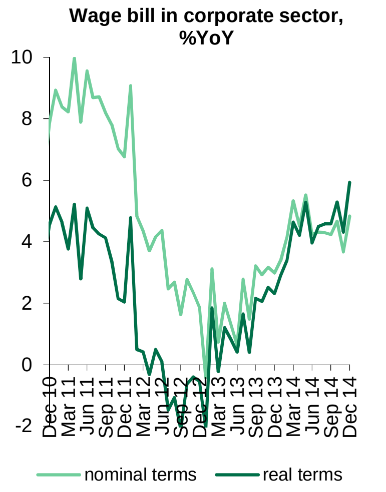
INSTANT COMMENT

20 January 2015

Labour market not losing steam

Data on wages and employment for December surprised positively, showing growth by 3.7%YoY and 1.1%YoY, correspondingly (versus market expectations at c.3% and 1%YoY). We find it especially optimistic that Polish companies keep hiring, which shows that they did not get scared of the uncertain situation abroad and probably keep investing. At the same time, wage growth remains moderate, which – amid deepening deflation caused by lower food and fuel prices – implies that households' purchasing power is rising quickly. In December the real wage bill soared nearly 6%YoY, most since late 2008. It would allow, in our view, to maintain private consumption growth at quite high level in the nearest quarters, even despite potential deterioration of moods due to surge in CHF exchange rate. Labour market data do not add to list of arguments supporting further monetary easing in Poland. However, we think it is deepening deflation that will tip the balance in favour of additional rate cut, as CPI growth may approach -1.5%YoY in 1Q15. Exchange rate fluctuations due to recent CHF appreciation may delay the moment of interest rate cut, so we think that the decision may take place in March.





December's data from the domestic labour market proved better than expected. Rise in employment in the corporate sector accelerated to 1.1%YoY from 0.9%YoY in November (as compared to market forecasts at 1.0%YoY and our forecast 0.9%YoY), while wage growth accelerated to 3.7%YoY from 2.7%YoY in November (as compared to market forecasts at 3.0%YoY and ours 2.6%YoY).

In monthly terms, employment in the corporate sector declined by 1.7k people, which is the best December's result since 2007. Let us stress that average decline of employment in December in 2007-2013 period amounted to 15k. Thus, the result in December 2014 is really outstanding. Additionally, rebound in the wage growth shows clearly that November's slowdown was only a one-off effect due to shift in bonus payments in mining. We expect that wage growth will remain at 3-4%YoY level in the upcoming months. In the entire 4Q14 wages added 3.4%YoY as compared to a rise by 3.5%YoY in Q3.

Acceleration of employment growth and rising wages indicate that companies remain optimistic and continue to create new workplaces despite the poor results in manufacturing and gloomy global economic outlook. Decent growth in employment and wages as well as deepening deflation work in favour of consumers. Real growth of the wage bill in the corporate sector expanded by 5.9% YoY in December and this was the fastest growth since late 2008, distinguishing positively when compared to results seen in previous months of 2014 (4.3% increase on average in January-November). This data provide a substantial support to the forecast of the consumption demand that will probably remain the important GDP growth engine in the coming quarters and will stabilize the economic growth close to 3% (even despite the risk of mood's deterioration due to Swiss franc appreciation). Note that households with Swiss mortgage loans (c.700k) are outnumbered by families that have PLN-denominated loan and which benefit from falling interest rates. According to our estimates, costs of PLN-loans servicing for Polish households will drop this year by over PLN3bn. Meanwhile, costs of servicing CHF loans may increase by no more than PLN1.5bn per annum, assuming CHFPLN stabilization at c.4.30.

Labour market clearly data do not bring the monetary policy easing in Poland closer. However, we still expect that deepening deflation (even to -1.5% YoY in 1Q) will convince the central bankers to cut rates once again. At the same time, recent volatility in the FX market postpones this decision, that is why we expect a reduction in March.

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