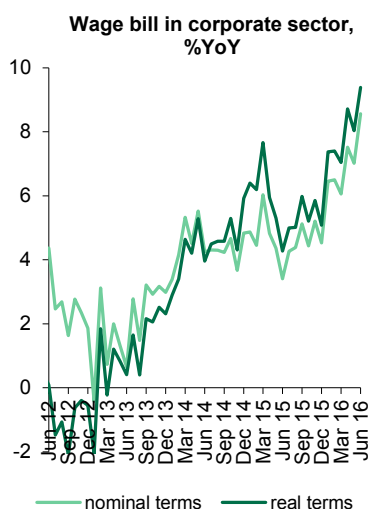
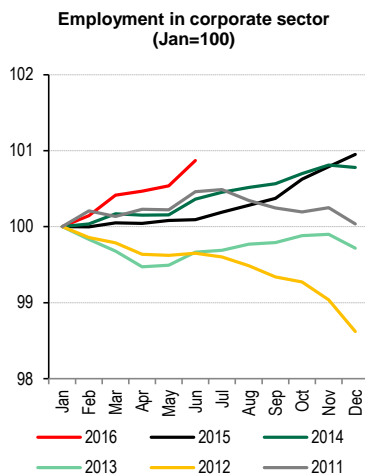


# INSTANT COMMENT

18 July 2016

## Wages and employment above expectations

Data from the Polish labour market surprised positively in June, as employment growth in the corporate sector accelerated to 3.1% y/y (vs. market consensus 2.9%) and average wage growth rose 5.3% y/y (vs. expected 4.9% y/y). Total wage bill in corporate sector rose 9.4% y/y in real terms, at the fastest pace since 2008. The data confirmed that the Polish labour market is red hot and the persisting labour demand is exerting growing pressure on wages (even though to some extent, data were supported by positive calendar effect). Strong labour income should support healthy growth of the private consumption in the coming quarters (which will be additionally boosted by 500+ child benefits). On the other hand, we argue that such pace of employment growth will be difficult to sustain given growing shortage of skilled labour force. Please note that the unemployment rate is already at the record low level (6.3% in May according to LFS data). While the strong data may temporarily reduce market expectations for interest rate cuts (tomorrow's industrial production and retail sales numbers may be also quite solid), we think that hopes for monetary easing in Poland may return later this year, as the economic growth in the coming quarters is likely to disappoint, in our view. We have recently reduced our economic forecasts for Poland (GDP growth 3.1% in 2016 and 2.9% in 2017) amid lower optimism regarding outlook for exports and investments.



The June labour market data were much better than expected. Employment increased by 3.1% y/y vs expected 2.9% y/y, while wages grew by 5.3% y/y vs market expectations of 4.9% y/y.

Employment in the corporate sector in June increased by 19k on monthly basis, and it was the best result in this month since 2007. We see that demand for labour has been solid for a long time, but in our opinion such a strong outcome suggests that companies may be changing contract types for their employees: from temporary to permanent contracts. It is worth noting that the LFS data show rather slowing growth in total employment than acceleration, which seems to confirm that we observe changes in forms of employment in the corporate sector, rather than in the intensity of demand for labour (although on the other hand, the LFS data do not include temporary workers from Ukraine, which also disturbs the general situation on the labour market). We do not rule out that trends to change forms of employment in the corporate sector have intensified after introduction of the 500+ programme, which forced employers to increase the attractiveness of workplaces. We will be able to say more about these tendencies after the publication of more detailed data on the breakdown of employment growth by Poland's statistics office. In our view, such a strong growth of employment will be difficult to sustain, given growing shortage of skilled labour force.

Wage growth accelerated strongly in June. In our view, this was due to positive working day effect, which affected payments in some sectors, like industrial manufacturing, but also because of stronger wage pressure in retail trade, which – similarly to employment – may be due to payments from the 500+ child benefit programme. Nominal wage growth was the highest since January 2012.

Growth rate of wage bill accelerated in June to 8.6% y/y in nominal terms and to 9.4% y/y in real terms, rising at the fastest pace since September 2008. The positive labour market situation will be supportive for private consumption in Q2 and Q3.

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