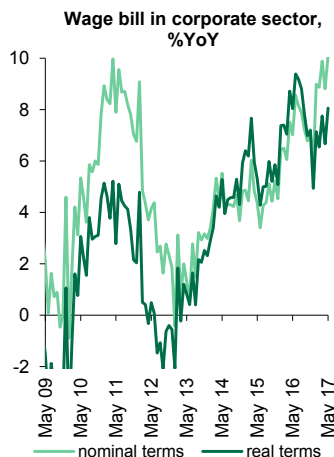


INSTANT COMMENT

19 June 2017

Wages accelerated to 5.4% y/y, employment growth disappointed

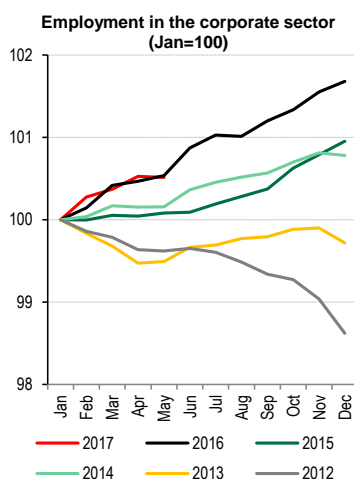
Labour market data from the Polish enterprise sector for May showed an acceleration of wage growth from 4.1% y/y to 5.4% and a slightly reduced pace of employment growth – from 4.6% y/y to 4.5%. We have a situation where wages came stronger than expected (market consensus for May was 4.9% y/y, we expected 5.3%) while employment numbers disappointed (the previous growth rate was supposed to hold in May). These are the directions of data surprises one would expect seeing how tight the Polish labour market has become (judging by the record low unemployment rate), but actually the wage data are quite sensitive to calendar effects. We think it is too early to say that there is already a buildup of wage pressure. Wage bill in the corporate sector increased by 8.1% y/y in real terms, the strongest since August 2016. Strong rise in households' incomes will be supportive for the private consumption in 2Q17 and in the following quarters. The acceleration of wages could lead some of the MPC members to try to influence the current dovish rhetoric of the central bank, but it could be difficult with inflation slowing in the last three months and with the NBP governor still convinced that keeping interest rates unchanged until the end of 2018 is the way to go.



Polish data on employment in May surprised to the downside and rose by 4.5% y/y versus expectations at 4.6% y/y. We saw some downward risk to this release after the rather weak data on unemployment in May. The slowing growth in enterprise sector payrolls is in line with our claims that the tighter labour market will eventually weigh on employment. However, in 2017 employment grew by 0.5% or 31k between January and May, and this is generally the same as in 2016 (0.5% or 31k), so it is rather too early to talk about a major slowdown in employment.

Wages, on the other hand, surprised to the upside and rose by 5.4% y/y, the highest since January 2012 (we expected 5.3%, consensus was pointing to 4.9%). In our view, this acceleration was mostly caused by positive working day effect plus low base from May 2016, which means there should be some downside correction in the months to come unless the effect of labour market shortages on wages manifests itself to a stronger extent.

Wage bill in the corporate sector increased by 8.1% y/y in real terms, the strongest since August 2016. Strong rise in households' incomes will be supportive for the private consumption in 2Q17 and in the following quarters.



The acceleration of wages could lead some of the MPC members to try to influence the current dovish rhetoric of the central bank. Changing the overall tone could be difficult with inflation slowing in the last three months and with the NBP governor still convinced that keeping interest rates unchanged until the end of 2018 is the way to go.

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