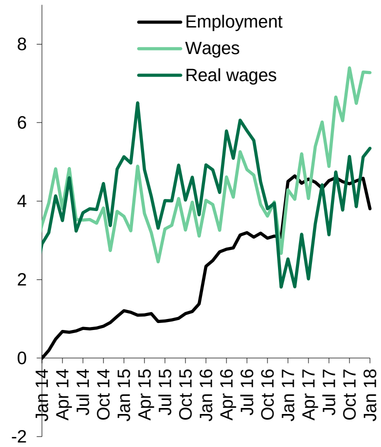
INSTANT COMMENT

16 February 2018

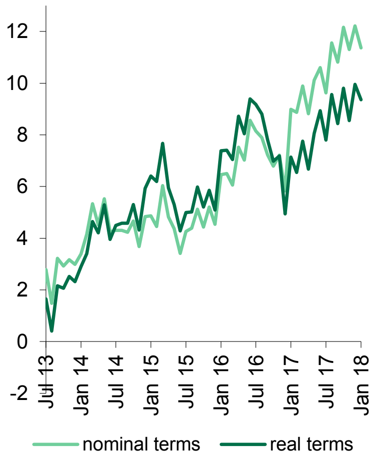
Labour market carries momentum into 2018

Corporate employment in January at 3.8% y/y (vs. our 3.7% call and market expectations at 3.4%) and wage growth remaining at 7.3% (in line with our forecast, but higher than 6.9% consensus) should be treated as quite positive readings. In January the Stats office changes the sample of enterprises covered by the survey so these data are not fully comparable to last year's. Still, the readings are in line with 2017 trends - with increasing wage pressure and yet still decent employment, as the labour market is getting tighter. There should be no response from MPC members, as the Council sees labour market processes a bit differently than us. We assume MPC will wait for the March NBP projection before, potentially, admitting the labour market situation may trigger higher core inflation.

Employment and wages in corporate sector, % y/y



Wage bill in corporate sector, % y/y



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Employment growth is now 3.8% y/y and was 4.4-4.6% in all months of 2017, but we still should see the January print as strong. In m/m terms employment rose by 122k, or 2%. At the start of 2017 the m/m growth for January was even stronger (161k, 2.8%), but before that one would have to go back to 2011 to see a similarly strong readings for the first month of the year. And there is plenty of evidence that the labour market is quite tight now, which should weigh on new hirings because of labour supply constraints, while labour demand is still very high. ESI employment expectations index, which we consider a gauge of labour demand is at a 8-9 year high for all covered sectors, except industry where it is at an all-time high.

Wage growth in January stayed at 7.3% y/y, but we remind that in December there was a high contribution of bonus payments in mining (the highest in almost four years) of c1.3pp, and this element was likely much weaker in January. Working day differences acted in favour of January, but we assume that the more detailed data coming later this month will confirm further broad acceleration of wages across sectors even after cleaning the data from calendar effects.

Real wage bill growth in January was 9.4% y/y, exactly the same as the 4Q17 average, which suggests that private consumption remained strong in 1Q.

There should be no response from MPC members, as the Council sees labour market processes a bit differently than us. We assume MPC will wait for the March NBP projection before, potentially, admitting the labour market situation may trigger higher core inflation. The pass-through from higher wages to services prices usually takes a couple of quarters which means this factor should soon start pushing core inflation significantly higher, from 0.9% y/y in December to c2% later this year.

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