Bank Zachodni WBK

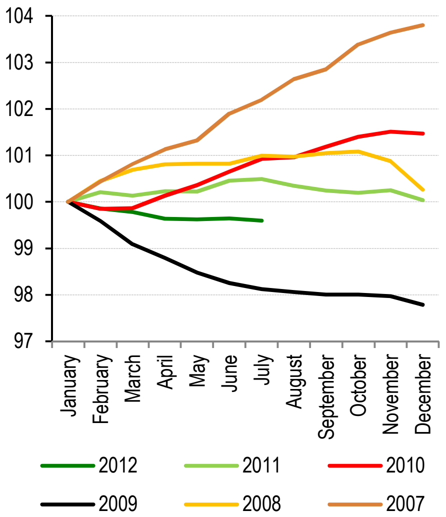
Instant comment

Labour market weakest for two years

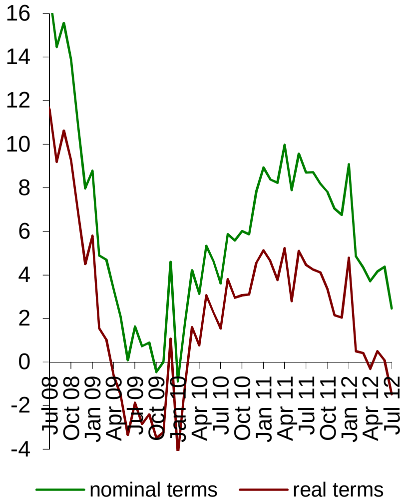
17 August 2012

July's labor market data proved to be the weakest for the last two years – the increase of employment slowed down do zero and wage growth to 2.4%YoY. These are next dovish data this week that confirm that May's interest rate hike delivered by the MPC was not a good idea. However, similar to earlier releases, the data did not cause significant market reaction. We still think that the MPC will not decide to cut interest this year, but recent data are increasing possibility of such move in early 2013.

Employment in enterprise sector (Jan=100)



Wage bill in corporate sector, %YoY



July's data on wages and employment in the corporate sector proved to be the weakest in more than two years. Employment growth slowed to a mere 0.0%YoY from 0.1%YoY in June, which was in line with market expectations. Since January already 22k jobs were shed, and since last employment peak in July 2011: 47k (if we omit January, when the CSO is adjusting the sample). We expect that demand for labour will remain weak in the upcoming quarters, as companies will not decide to hire new employees in face of weakening economic activity.

Wage growth in enterprise sector slowed to 2.4%YoY, down from 4.3%YoY in June, well below market expectations (market consensus: 4.0%YoY, with the lowest forecast at 3.1%YoY). We would like to recall, that in June wage growth surprised on the upside, exceeding significantly market prediction. Back then, we explained it by payment for overtime work in retail trade during EURO2012 and/or bonuses payment. It seems that explanation was right and unless one-off effect in June, we would have earlier seen a significant slowdown in wages. If this is the case, next months are not likely to bring acceleration in wage growth.

The wage bill in corporate sector increased in July in nominal terms by 2.5%YoY and in real terms decreased by 1.5%YoY. It is not a positive sign from the point of view of consumption growth in Q3. The data shows that the risk of second round effects is low, which is a dovish signal for the MPC.

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