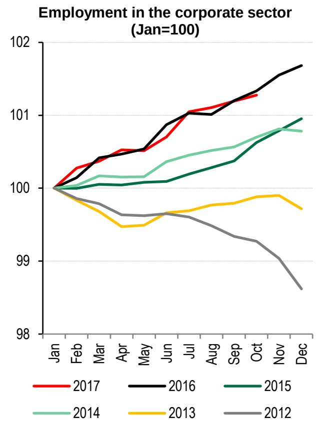
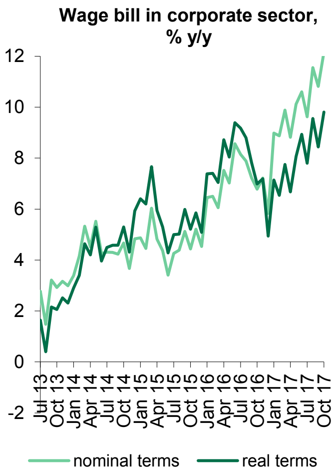
INSTANT COMMENT

17 November 2017

Wage growth strongest since 2009

Wages in the enterprise sector rose in October by 7.4% y/y, which is a significantly stronger pace than the market assumed (6.6%, our forecast was 6.4%). This is the strongest reading of wage growth in y/y terms since January 2009. Employment increased in October by 4.4% y/y or by 5k m/m, more less in line with our expectations. In our view the acceleration of wages vs. September (6% y/y) came from three factors: the positive working days effect (adding c0.5pp), rising wage pressure and one-off effects like bonus payments. We expect that wage growth will increase even more in the coming quarters. The number of employed is growing due to strong labour demand, but at the same time enterprises signal rising difficulties in finding qualified personnel. We think pace of employment growth will decelerate in the coming quarters and shortage of labour supply will curb potential GDP growth. Strong labour market suggests private consumption could rise further in 4Q17. October's wage growth is well above NBP forecasts presented last week in the new Inflation Report and in our view could be an important argument for hawkish members of the MPC. Several of them have already signaled recently that 1Q18 could be a good time to submit a motion for a hike. In our view, this has become more likely after today's data. However, we think that only in 2H18 there will be a majority to support such motion.





Wages in the enterprise sector rose in October by 7.4% y/y, which is a significantly stronger pace than the market assumed (6.6%, our forecast was 6.4%). This is the strongest reading of wage growth in y/y terms since January 2009. In our view the acceleration of wages vs. September (6% y/y) came from three factors: the positive working days effect (adding c0.5pp), rising wage pressure and one-off effects like bonus payments. Unfortunately, we cannot tell apart the influence of the last two factors, unless detailed data are released. Especially, we are curious about growth of wages excluding mining sector, as this part of the economy adds much volatility to wage data. We expect that wage growth will increase even more in the coming quarters.

Employment increased in October by 4.4% y/y or by 5k m/m, more less in line with our expectations. The number of employed is growing due to strong labour demand, but at the same time enterprises signal rising difficulties in finding qualified personnel. We think pace of employment growth will decelerate in the coming quarters and shortage of labour supply will curb potential GDP growth. In our view, there is still no effect of lower retirement age in employment data. We estimate that lower retirement age could take 0.5pp off the pace of employment growth but this effect will be spread in time.

Strong labour market suggests private consumption could rise further in 4Q17. Real wage bill in corporate sector rose 9.8% y/y in October, the highest pace this year so far. In nominal terms, wage bill rose 12.2% y/y, the fastest since 2008.

October's wage growth is well above NBP forecasts presented last week in the new Inflation Report and in our view could be an important argument for hawkish members of the MPC. Several of them have already signaled recently that 1Q18 could be a good time to submit a motion for a hike. In our view, this has become more likely after today's data. However, we think that only in 2H18 there will be a majority to support such motion.

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