Bank Zachodni WBK
Grupa Santander

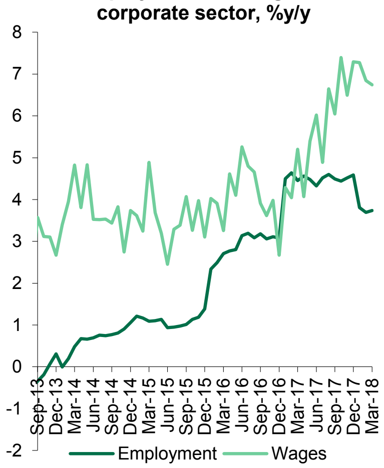
# ECONOMIC COMMENT

18 April 2018

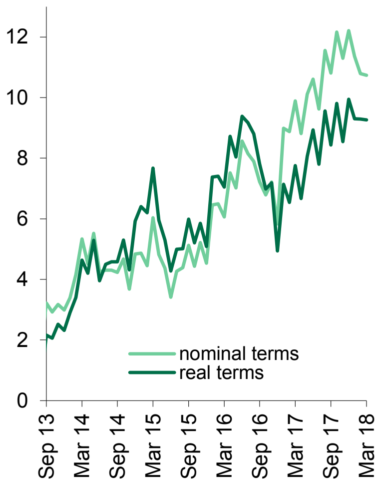
## Deceptive stabilization

**Average employment growth in corporate sector stabilized in March at 3.7% y/y, in line with expectations, while average wage growth slowed slightly to 6.7% y/y (from 6.8% in February). The latter was slightly above market consensus (6.5%), but below our forecast (7.0%). In March the wage growth was negatively affected by calendar effect (lower number of working days, lower activity just before Easter), so the slowdown versus February is not really a sign of weakness, although it seems that growing labour market tensions are passing through rise in salaries slower than we anticipated. We see anecdotal evidence of firms still planning to raise wages in the coming months. Thus, we expect to see gradual acceleration of wage growth later this year as the shortage of workers will only get deeper. For the central bank the today's publication is nothing to worry about and is not likely to change the MPC's dovish rhetoric.**

**Employment and wages in corporate sector, %y/y**




**Wage bill in corporate sector, % y/y**




Wage growth in corporate sector in March remained below 7% y/y (reaching 6.7% y/y vs. 6.8% y/y in February). We expected to see 7% y/y growth, while market consensus was 6.5% y/y. Calendar effects were unsupportive for wage dynamics in March. The number of working days was lower by one than in March 2017, while in February it was the same as last year. Moreover, the Easter effect could have negatively affected the data (economic activity usually tends to decrease just before the holiday break, which potentially could lower the pay of piecework employees). Therefore we do not treat the March result as a sign of weakening wage pressure. It is possible that the result could have been affected by introduction of trade ban on Sundays, although we still have to few data to verify such hypothesis.

The March result was lower than we anticipated, but we still think the tensions on the labour market will translate to an acceleration of wage growth in the coming months and problems enterprises have filling vacancies in our view are only growing. In some firms the wage negotiations are still not completed, which may also stand behind the slightly lower result in March than we expected.

We saw also continued stabilization of employment growth at 3.7% y/y, in line with expectations. Labour supply looks to be drying up which may lead to slower employment growth later in the year.

Real wage bill in the corporate sector rose 9.3% y/y third month in a row, growing faster than 2H17 average. Although 2016 and 2017 saw months with higher pace of growth, only in 2007 and 2008 Polish economy managed to keep at least that high growth through the whole year.

Central bank March projection assumed that pace of wage growth will stay below 7% this year so the last reading should be neutral for the MPC. However, if wages accelerate further in the coming months, like we expect, this could trigger some discussion within the Council on inflation pressure from the labour market.



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