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## Economic Comment

### Weaker labour market and consumer sentiment

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Wage and employment growth eased somewhat in October, to 5.9% y/y and 2.5% respectively. Employment declined in absolute terms for the third month in a row, confirming that the labour demand in Poland is weakening. Consumer sentiment data are no longer setting new all-time highs every month, and weaker growth rate of labour income and consumer optimism could mean some slowdown of private consumption in the upcoming quarters. Data on 3Q19 company results provide evidence of further decline of profit margins and signal a slowdown in private investments. In our view, the situation of companies will be curbing wage growth and fueling inflation.

#### Weaker wage and employment growth

Employment growth in the corporate sector slowed to 2.5% y/y in October from 2.6% in September. In monthly terms employment fell by 2.7k and this was the first decline in October since 2012 and the third decline in a row. The demand for labour in the Polish economy is clearly weakening and this trend will continue, keeping the wage growth in the corporate sector in check. October wage growth in the corporate sector was at 5.9% y/y, again slightly below market expectations. In our view it should stabilise around 6% in the months to come. Detailed breakdown of wage and employment growth will be revealed in the Statistical Bulletin due for release on 27 November.

#### Flattening wage distribution

Median wage in the national economy sector in October 2018 amounted to 4094.98PLN and rose by 16.6% since 2016 (8.0% per annum). At the same time, the 1<sup>st</sup> decile rose by 17.7% (8.5% per annum) and 9<sup>th</sup> decile by 14.4% (7.0% per annum), thus the wage distribution became a bit more flat, which was positive for consumption as low earners usually record lower saving rates. Minimum wage was earned by 7.6% of employees, down from 9.0% recorded in October 2016.

#### Consumers' very high optimism seems to be cracking

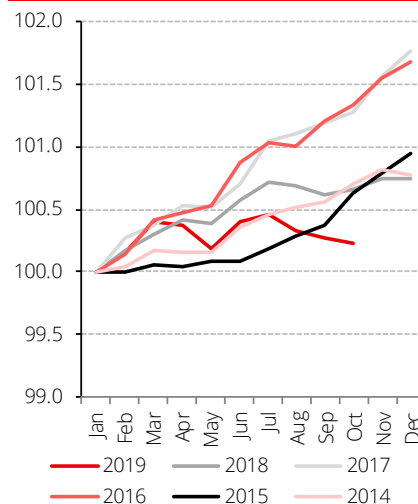
In November, Polish consumer sentiment indicators declined again. Current situation index is the lowest in nine months expectations index is the lowest in eleven months. The largest decline was recorded in expectations about economic situation (now at one of the lowest readings of the last 2.5 years). The gauge of households' financial situation and their appetite for major purchases are still historically high though. Private consumption remains the pillar of Poland's economic growth, but the recent behaviour of consumer confidence is raising some questions, especially when matched with the second month of negative surprise in corporate wage growth and first signs of growing worries about unemployment.

Note however that even despite slowing labour income, household's disposable incomes will be supported by lower tax rates, expansion of 500+ programme and another payment of 13. pension, so in our view general growth of incomes will be supportive for private consumption.

#### Company margins compressed further in 3Q...

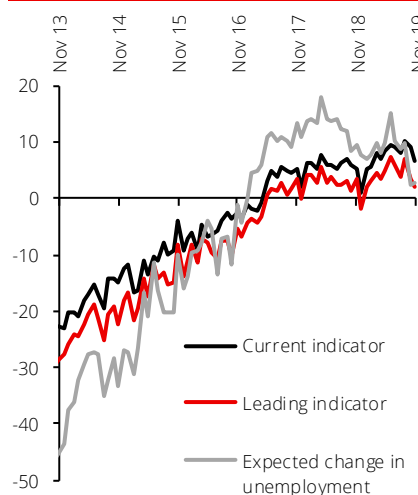
In 3Q19, Polish companies employing 50+ saw revenues rising by 6.0% y/y and costs by 6.4% y/y, which led to a compression of profit margins to 4.6% from 5.0% in 3Q18. Companies were still witnessing a major rise of labour costs, which increased by 12.0% y/y and were the main contributor to total cost growth. In our view, the margin

Employment in the corporate sector, Jan = 100



Source: GUS, Santander

Consumer sentiment measures



Source: GUS, Santander

#### Economic Analysis Department:

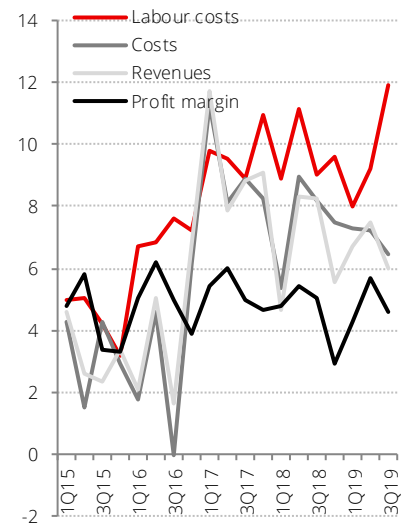
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compression will be an argument curbing wage growth and fuelling inflation in the quarters to come.

**... and investment outlays slowed down**

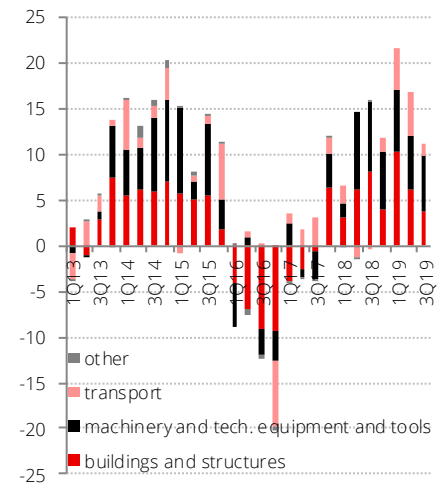
Investment outlays in companies employing 50+ slowed down to 11.3% y/y in 3Q19 from 17.0% y/y in 2Q19 with a major slowdown in means of transport (to 10.6% y/y from 36.4% y/y), construction (10.0% y/y from 17.6% y/y) amid some acceleration in machines (12.6% y/y from 11.6% y/y). Slowing investment is line with our expectations, given deteriorating economic climate and declining EU funds utilisation. We are expecting further slowdown to come. We are expecting total investment in the economy to slow down to 6% y/y in 3Q19 from 9% y/y in 2Q19. Detailed GDP data is due for release on 29 November.

**Results of big companies, % y/y**



Source: GUS, Santander

**Breakdown of investment in big companies, % y/y**



Source: GUS, Santander

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