

Poland: Wage growth below expectations, broad-based acceleration still expected.

Wage growth decelerated to 6.5% YoY, likely due to one-off factors. We expect broad-based wage acceleration to continue in 2018. Still, with limited risk of overshooting the NBP target (CPI exceeding 3.5% YoY), any prompt MPC reaction is unlikely.



Source: Shutterstock

6.5 Wage growth (%)

Worse than expected

Wage growth decelerated in Nov-17, from 7.4% YoY to 6.5% YoY (and below market consensus of 7% YoY). The detailed structure will be published next Friday, in the GUS Statistical Bulletin. This publication should provide answers to: (1) the impact of mining sector bonuses on the

headline figure (such payments typically create additional volatility in November and December – with the current disappointing reading, we see significant scope for positive surprises in December), and (2) the structure of underlying wage pressures – so far the retail and wholesale trade and the construction sector have strongly outpaced other areas (industry and services). Short-term moderation in construction seems probable.

Looking ahead we expect regulatory changes (a lower hike in minimum wage) to lower the 1Q18 figure by approximately 0.5ppt. This is a short-term respite as the underlying trend is accelerating, with strong likelihood of exceeding last month's levels in 1H18. Our major concern is related to labour shortages in the construction sector. Labour shortages and related wage pressures pose major risks in delaying completion of infrastructure investments. This problem is increasingly visible as more and more public procurements fail due to the rising discrepancy between the price offered and the project's budget. Such a situation is likely to expand further next year.

All in all we see limited response from the MPC to the higher wage trajectory. MPC members communicate a low propensity to act, unless there is a risk of overshooting inflation targets. We still expect the first rate hike in 4Q18.