Wage pressure still moderate

This week

- **The most important event this week will be the release of the May business sentiment indicators for major European economies scheduled for Wednesday.** We expect that PMI Composite for the Eurozone has dropped to 55.0 pts in May vs. 55.1 pts in April. The index decreased given a slight deterioration in France and a slight improvement in Germany. Ifo Index, reflecting the sentiment among German managers representing the manufacturing, construction, and services, will be released on Friday. We expect it to decrease to 101.7 pts in May from 102.1 pts in April. The business survey results will be of particular importance in the context of assessing the prospects for the slight deceleration observed in recent months within the single currency area and the impact of D. Trump's protectionist actions on exporters' sentiment. Our forecasts of business survey results for major European economies are close to the consensus, therefore their publication will be neutral for PLN and the prices of Polish bonds, we believe.
- **Another important event this week will be the publication of the Minutes of the May FOMC meeting.** The markets will focus on FED members' in-depth analyses of short- and medium-term outlook for the economic situation in the US (including mainly the expected inflation profile). The publication of the Minutes is not likely to provide any new information that would change our and the market's scenario of gradual normalization of the US monetary policy. Our baseline scenario assumes that FED will hike interest rates by additional 75bp before the end of 2018. The hike at the June meeting is now fully priced in by the market, therefore the publication of the Minutes will be neutral for PLN and yields on Polish bonds, we believe.
- **Significant US hard data and business survey results will be released this week.** We expect that the monthly dynamics of preliminary durable goods orders dropped to 0.1% in April from 2.6% in March, due to a lower number of orders in the Boeing company. We expect that further recovery in the US real estate market will be confirmed by data on new home sales (675k in April vs. 694k in March) and existing home sales (5.63M vs. 5.60M in March). Business survey results for May will also be released in the US. We believe that upward-revised final University of Michigan Index (99.0 pts vs. 98.8 pts in April) will point to a slight improvement in households' sentiment. In our view, the aggregate impact of US data will not be market moving.
- **Data on retail sales in Poland, which, in our view, increased by 8.2% YoY in April vs. 9.2% in March, will be released on Wednesday.** Conducive to their lower dynamics was the abatement of the positive effect related to the shift of Easter Holiday timing compared to last year. In turn, a favourable difference in the number of working days had an opposite impact. We expect that a bigger number of Sundays with trade ban as compared to March (four vs. two) will have a limited negative impact on retail sales. In our view, data on retail sales will not have any significant impact on the financial markets.
- **In accordance with GUS data, dynamics of sold production of industry in enterprises employing more than 9 people rose to 9.3% YoY in April vs. 1.8% in March, running above our forecast (7.8%) and below the market consensus (9.5%).** Seasonally-adjusted industrial production increased by 0.5% MoM in April. The main factors behind the increase in industrial production dynamics between March and April was the favourable difference in the number of working days (in April 2018 the number of working days was one day higher than in 2017 while in March 2018 it was one day lower than the year before) and the last year's low base effect. For a detailed comment regarding the data please see today's MACROpulse.

Last week

- **GDP growth rate stood at 5.1% YoY in Q1 vs. 4.9% in Q4 2017, running above the market expectations (4.8%).** Seasonally-adjusted GDP rose by 1.6% QoQ in Q1 vs. a 1.0% increase in Q4. The GUS data are a flash estimate. Full GDP data including its structure will be published towards the end of May. We believe that the main factor behind GDP growth acceleration in Q1 were higher dynamics of private consumption. Despite the expected by us acceleration in investments growth, due to the reduction of weight of gross fixed capital formation in GDP between Q4 and Q1, their contribution to GDP growth has most likely decreased in Q1. In addition, the data on the balance on foreign trade signal that the contribution of net exports to GDP growth has decreased between Q4 and Q1 (see MACROpulse of 15/5/2018). We believe that Q1 2018 was the peak of the current business cycle. We expect that in subsequent quarters the GDP growth rate will continue to reach relatively high levels but will stay within a weak downward trend. The last week's data pose an upside risk to our forecast of the average yearly GDP growth in 2018 (4.3% YoY in 2018 vs. 4.6% in 2017).
- **Inflation in Poland rose to 1.6% YoY in April vs. 1.3% in March, running in line with the GUS flash estimate**. Conducive to higher inflation were higher dynamics of prices of fuel as well as food and non-alcoholic beverages. On the other hand, a decrease in core inflation to 0.6% YoY in April vs. 0.7% in March had an opposite impact. The decrease in core inflation resulted mainly from lower dynamics of prices in the categories "transport, excluding fuels" (the high base effect from the year before related to rise in prices of air tickets), "communication" (most likely further cuts of prices of telecommunication services), and "other expenses on goods and services". In our view, further decrease in core inflation indicates continuing lack of inflationary pressure in the economy. However, we expect a slight increase of core inflation in subsequent months. It will be related to growing cost and demand pressure with the forecasted by us moderately fast increase in nominal wages. In addition, until July 2018, the increase in inflation will be supported by the low base effects from the year before in the category "fuels". An upside risk to our fuel price profile is the increase in global oil prices observed in recent weeks (see MACROpulse of 15/5/2018). Nevertheless, we maintain our view that the above-mentioned factors, being conducive to higher inflation, will be more than compensated by the forecasted by us decrease in the dynamics of food prices, which will run slightly below zero in Q4 2018. Consequently, we forecast that inflation will decrease to 1.4% YoY in 2018 vs. 2.0% in 2017.
- **ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany has not changed in May compared April and amounted to -8.2 pts, hitting the lowest level since November 2012.** According to press release, conducive to improved sentiment were the better-than-expected data on German exports and industrial production. However, their positive impact was offset by the increase in geopolitical pressure resulting from the US decision to exit the Iran nuclear deal and the US protectionist policy. Negative for survey participants' sentiment was also the increase in oil prices observed in recent weeks. Combined with data on the German GDP in Q1 (see above), the ZEW Index poses a substantial downside risk to or forecast in which the German GDP will increase by 2.5% in 2018 vs. 2.2% in 2017.
- **Substantial data from China were released last week**. In general they pointed to lower growth rate of economic activity in April. The dynamics of retail sales dropped to 9.4% vs. 10.1% in March, of urban investments to 7.0% vs. 7.5%, in turn the dynamics of industrial production rose to 7.0% vs. 6.0%. The last week's data from China are consistent with our forecast, in which the Chinese GDP growth rate will decrease to 6.6% in 2018 vs. 6.9% in 2017.
- **The deficit in the Polish current rose to EUR 982M in March vs. EUR 972M in February.** The slight decrease in the current account balance occurred due to lower balances on primary

income and secondary services (lower from February by EUR 343M and EUR 241M, respectively) and higher balances on secondary income and trade (higher from April by EUR 290M and EUR 284M, respectively). Export dynamics dropped to -2.0% YoY in March vs. 5.5% in February, and imports dynamics dropped to 1.6% YoY vs. 8.3%. Conducive to slower exports growth was the statistical effect in the form of an unfavourable difference in the number of working days and the decrease of activity observed in recent month in global trade. It is worth noting that export growth rate was negative for the first time since October 2016. We estimate that the relation of cumulative current account balance for the last 4 quarters to GDP decreased to -0.1% in Q1 vs. 0.3% in Q4 2017.

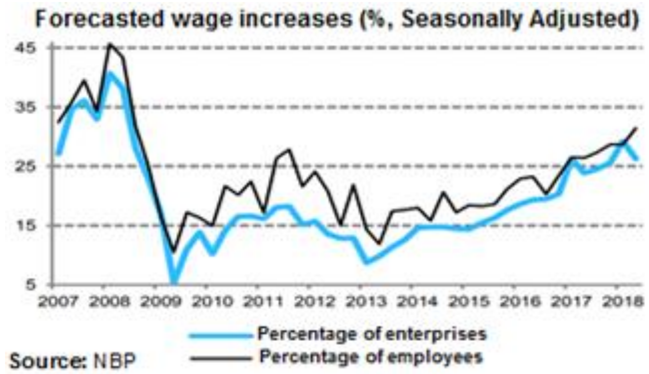
- **The flash GDP data were released last week for major European economies.** The quarterly GDP growth in the Eurozone dropped to 0.4% in Q1 2018 vs. 0.7% in Q4 (2.5% YoY in Q1 vs. 2.8% in Q4). Conducive to lower GDP growth within the single currency area was lower GDP growth i.a. in Germany (0.3% QoQ in Q1 vs. 0.6% in Q4) and in France (0.3% vs. 0.7%). In Italy and Spain the quarterly GDP growth rate has not changed in Q1 compared to Q4 2017 and amounted to 0.3% and 0.7%, respectively. The data pose a downside risk to our forecast, in which GDP growth in the Eurozone will not change in 2018 compared to 2017 and will amount to 2.4%.
- **As we expected, the Monetary Policy Council left interest rates unchanged at the last week's meeting (the reference rate amounts to 1.50%).** In the statement after the meeting, the Council repeated the view that the current level of interest rates was conducive to keeping the Polish economy on a sustainable growth path and maintaining macroeconomic stability (see MACROpulse of 16/5/2018). The tone of the conference after the Council meeting did not change compared to the previous month. The NBP Governor, A. Glapiński, pointed out that currently he could not see any inflationary pressure, wage pressure, or imbalances in the economy. He maintained the view that interest rates would be left unchanged most probably until the end of 2019 and, unless unexpected events occurred (e.g. political risk abroad), also in 2020. Present at the conference MPC member, K. Zubelewicz, was of a similar opinion. In turn, J. Osiatyński stated that it was a long forecast horizon and that he was "not so bold in his predictions". Like a month ago, the NBP Governor pointed out that the likelihood of further interest rate hikes was small due to the "structure of the banking system". In his view, in a purely hypothetical situation of a sharp slowdown of economic growth and zero inflation, the MPC would most probably ease the monetary policy using unconventional tools. The remarks of A. Glapiński pose a downside risk to our forecast of NBP interest rates (first hike by 25 bp in November 2019).
- **Nominal wage dynamics in the sector of enterprises rose to 7.8% YoY in April from 6.7% in March, running markedly above our forecast equal to the market consensus (7.1%).** The main factor behind higher annual wage dynamics was the low base effect related to the abatement of the impact of bonuses paid in mining. In addition, in April 2018, annual bonuses were paid in Biedronka supermarket chain, which has also contributed to higher wage growth. Wage dynamics were also supported by statistical factors related to a favourable difference in the number of working days, boosting the wage growth of employees doing piecework (see MACROpulse of 18/5/2018). The annual employment growth has not changed in April compared to March and amounted to 3.7% YoY. In our view, the employment growth was boosted by gradual acceleration in real wage growth, which supports the return to the labour market of so-far professionally inactive persons, and by growing registered employment of immigrants from Ukraine. We estimate that the real wage growth (employment times average wages) in the enterprise sector rate rose to 10.0% in April vs. 9.3% in March and in the whole Q1. The acceleration in real wage fund growth poses an upside risk to our forecast of private consumption growth in Q2 2018 (4.4% YoY vs. 5.4% in Q1).

Numerous hard data on US economy and business survey results were released last week. The monthly dynamics of industrial production have not changed in April compared to March and amounted to 0.7%. At the same time, capacity utilization rose to 78.0% in April vs. 77.6% in March, mainly due to lower car sales. Excluding card sales, the sales dynamics dropped to 0.3% MoM in April vs. 0.4% in March. The continuingly high activity in the US real estate market was reflected by data on building permits (1352k in April vs. 1377k in March) and housing starts (1287k vs. 1336k). Good signals on sentiment in manufacturing came last week from NY Empire State Index (20.1 pts in May vs. 15.8 pts in April) and Philadelphia FED Index (34.4 pts in May vs. 23.2 pts in April). The last week's data from the US economy are consistent with our scenario, in which the annualized US GDP growth rate will increase from 2.3% in Q1 to 3.1% in Q2.

Wage pressure still moderate

Two weeks ago GUS released data on average wages in Q1 2018. The nominal wage growth rate in the national economy amounted to 6.2% YoY vs. 7.1% in Q4 2017. In effect, it stood significantly below our expectations equal to the NBP forecast presented in the March inflation report (6.8%). At the May MPC conference, the NBP Governor did not refer directly to the undershooting of the NBP forecast. However, he pointed out that he currently saw no wage pressure in the economy. Further evolution of wage growth is of particular importance from the point of view of the monetary policy outlook. Therefore, we present below our expectations concerning main tendencies in this respect.

In simple terms, the employed in the national economy can be divided into the enterprise sector (hereinafter ES), private sector employees not included in ES (i.a. financial and insurance activity, research and development), and the public sector. In the case of the public sector, recent years saw a wage freeze. At the beginning of 2018 the basic remuneration of local government employees was increased. However, the impact of this rise has already been accounted for in the wage growth rate for Q1 and will be neutral for the wage growth rate in the national economy in subsequent quarters of 2018. According to the currently available data, after Q1 2018, wage increase in the public sector will be (or has already been) recorded for teachers, uniformed services personnel, doctors, and nurses. However, considering the percentage of these employees in total employment in Poland, the total scale of these increases will only have a limited positive impact on nominal wage growth rate in the national economy and will abate after one year.



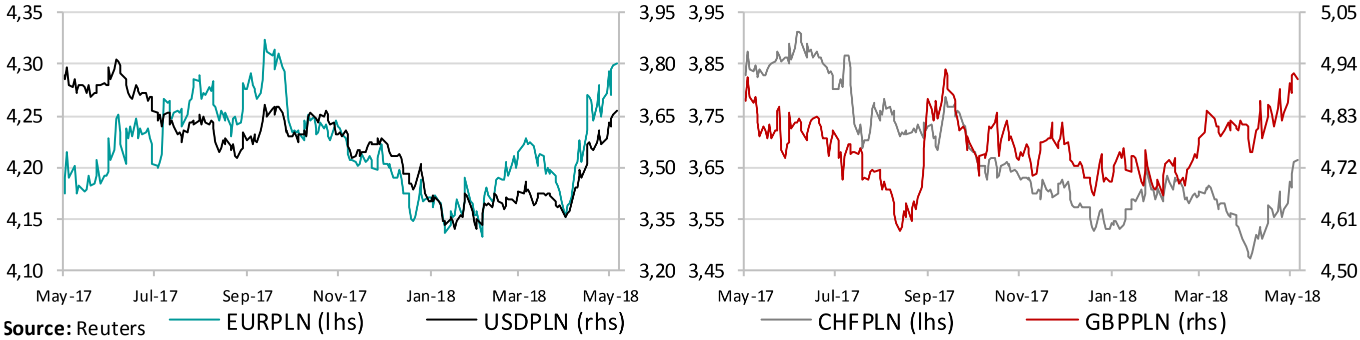
Source: NBP

Different situation is observed in the private sector, in the ES in particular. According to GUS data released last week, nominal wage dynamics in the sector of enterprises employing more than 9 persons rose to 7.8% YoY in April from 6.7% in March, running markedly above our forecast equal to the market consensus (7.1%). Thus, nominal wage dynamics hit the highest level since January 2012. Survey results suggest a likely further fast wage increase. According to the Labour Market Barometer survey for Q1 2018, prepared by Work Service company, employers' propensity to increase wages is currently the highest in recent years. Compared to the previous report, the percentage of companies planning pay rises rose by 17.7pp and at 29% was the highest in the survey history (from 2013). Similar tendencies in the labour market are reflected by the NBP survey ("Quick Monitoring April 2018"). High are both the reported percentage of companies planning to increase wages in Q2 2018 (26.3%) and the percentage of those employed in the companies planning wage increases (31.4%). The average scale of the planned rises has also increased according to the survey (up to 6.5% in the group of enterprises planning to modify wages). Most companies (69%) have recorded wage pressure and 22% have signaled its increase. The results of the surveys support our scenario of ES wages, as we expect that in the subsequent quarters the annual wage growth in ES will stay between 7% and 8%, supported by the growing wage pressure in a number of branches.

Considering the expected by us stabilization of wage growth in the public sector and acceleration in the nominal wage growth in ES (and consequently in the whole private sector), we forecast that wages in the national economy will increase by 6.2% in 2018 and 6.5% in 2019 vs. a 5.3% increase in 2017. The acceleration in wage growth will be conducive to increase in cost pressure and higher inflation. However, an analysis of the impact of growing wages on inflation cannot be based directly on the wage growth profile. To assess the impact of wage growth on the amount of costs incurred by companies it is also necessary to account for the productivity growth rate. Considering the tendencies in this respect (see MACROmap of 29/1/2018), we expect only a moderate increase in core inflation and, consequently, also in total inflation (1.7% YoY in 2019 vs. 1.4% in 2018). The scenario presented above supports our forecast assuming the first interest rate hike in November 2019.

Eurozone PMIs neutral for PLN

FX rates



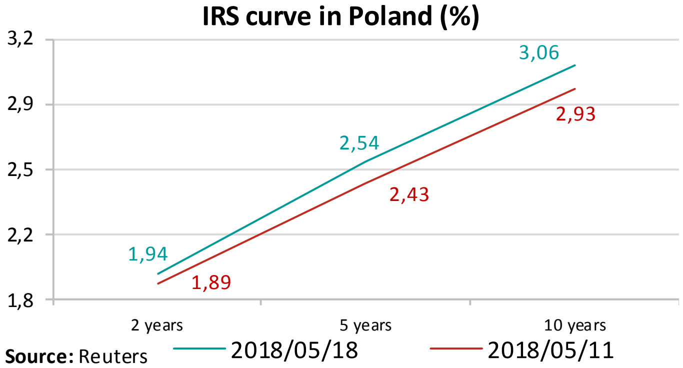
Source: Reuters

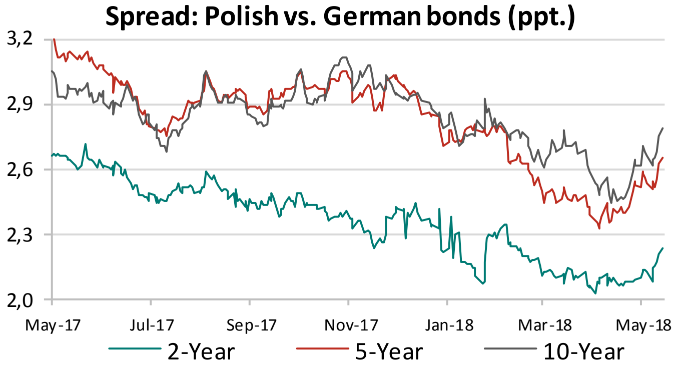
Last week EURPLN rate rose to 4.2997 (PLN weakening by 0.8%). Throughout last week, PLN rate, like the exchange rates of other emerging currencies, was staying within a weak downward trend. PLN depreciation resulted from increased risk aversion reflected by higher VIX Index. The market sentiment deteriorated due i.a. to the increase in political pressure in Italy and reports that North Korea might withdraw from the planned summit with the US. Domestic and foreign readings of macroeconomic data had a limited impact on PLN.

Due to the nature of the last week's PLN weakening, which resulted mainly from increased risk aversion, PLN also depreciated vs. other major currencies. In effect, last week, PLN depreciated vs. USD (by 2.2%), CHF (by 2.5%), and GBP (by 1.7%).

Data from the US (existing home sales, new home sales, preliminary durable goods orders) and business surveys for major European economies (flash PMIs and IFO Index for Germany) will have a limited impact on PLN, we believe. In our view, domestic data on retail sales and the publication of the Minutes of the May FOMC meeting will also be neutral for PLN.

Markets focus on business survey results for the Eurozone





Source: Reuters

Last week the 2-year IRS rates rose to a level of 1.9426 (up by 6 bp), 5-year rates to a level of 2.535 (up by 11 bp), and 10-year rates to a level of 3.0601 (up by 13 bp). Throughout last week IRS rates in Poland were changing following the German market. Conducive to their increase was increased political risk in Italy. The conference after the MPC meeting and the readings of macroeconomic data had a limited impact on IRS rates.

Data from the US (existing home sales, new home sales, preliminary durable goods orders) and business surveys for major European economies (flash PMIs and IFO Index for Germany) will be neutral for IRS rates, we believe. In our view, domestic data on retail sales will also have a limited impact on the market. We expect that the publication of the Minutes of the May FOMC meeting will not meet with a visible reaction of IRS rates.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
NBP reference rate (%)	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50
EURPLN*	4,23	4,18	4,23	4,25	4,25	4,31	4,24	4,20	4,18	4,15	4,17	4,21	4,24	**4,24**
USDPLN*	3,88	3,72	3,70	3,59	3,57	3,65	3,64	3,53	3,48	3,34	3,42	3,42	3,51	**3,48**
CHFPLN*	3,90	3,84	3,86	3,72	3,72	3,77	3,65	3,59	3,57	3,59	3,62	3,58	3,54	**3,57**
CPI inflation (% YoY)	2,0	1,9	1,5	1,7	1,8	2,2	2,1	2,5	2,1	1,9	1,4	1,3	1,6	
Core inflation (% YoY)	0,9	0,8	0,8	0,8	0,7	1,0	0,8	0,9	0,9	1,0	0,8	0,7	0,6	
Industrial production (% YoY)	-0,5	9,3	4,4	6,3	8,9	4,3	12,4	9,2	2,8	8,6	7,3	1,9	**7,8**	
PPI inflation (% YoY)	4,2	2,4	1,8	2,2	3,0	3,2	3,0	1,8	0,3	0,2	-0,1	0,3	**0,7**	
Retail sales (% YoY)	8,1	8,4	6,0	7,1	7,6	8,6	8,0	10,2	6,0	8,2	7,9	9,2	**8,2**	
Corporate sector wages (% YoY)	4,1	5,4	6,0	4,9	6,6	6,0	7,4	6,5	7,3	7,3	6,8	6,7	7,8	
Employment (% YoY)	4,6	4,5	4,3	4,5	4,6	4,5	4,4	4,5	4,6	3,8	3,7	3,7	3,7	
Unemployment rate* (%)	7,6	7,3	7,0	7,0	7,0	6,8	6,6	6,5	6,6	6,9	6,8	6,6	**6,2**	
Current account (M EUR)	284	-202	-902	-296	311	218	436	278	-699	2072	-972	-982		
Exports (% YoY EUR)	3,3	19,1	7,2	15,0	13,4	11,5	15,8	15,5	2,6	11,7	5,5	-2,0		
Imports (% YoY EUR)	5,0	21,5	14,3	14,6	8,7	8,9	15,4	15,9	10,9	16,3	8,3	1,6		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator	2017				2018				2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	4,4	4,0	5,2	4,9	5,1	4,3	4,2	3,9	4,6	4,3	3,0
Private consumption (% YoY)	4,5	4,9	4,7	5,0	5,4	4,4	4,3	4,2	4,8	4,6	3,6
Gross fixed capital formation (% YoY)	1,4	1,3	3,6	5,4	6,5	6,0	5,5	5,0	3,4	5,6	3,1
Export - constant prices (% YoY)	11,2	4,5	9,2	8,2	7,5	6,5	6,6	6,0	8,2	6,6	5,0
Import - constant prices (% YoY)	11,1	8,0	7,0	8,9	8,1	7,8	7,5	7,0	8,7	7,6	6,0
GDP growth contributions											
Private consumption (pp)	2,8	2,9	2,8	2,5	3,5	2,6	2,6	2,1	2,7	2,7	2,1
Investments (pp)	0,2	0,2	0,6	1,4	0,8	1,0	0,9	1,2	0,6	1,0	0,6
Net exports (pp)	0,5	-1,5	1,3	0,0	0,0	-0,4	-0,2	-0,3	0,1	-0,2	-0,3
Current account (% of GDP)***	0,2	-0,4	0,3	0,3	-0,1	-0,1	-0,4	-0,4	0,3	-0,4	-0,6
Unemployment rate (%)**	8,0	7,0	6,8	6,6	6,6	6,0	6,2	6,5	6,6	6,5	6,5
Non-agricultural employment (% YoY)	2,1	2,4	1,8	1,3	1,2	0,7	0,4	0,3	1,9	0,6	0,2
Wages in national economy (% YoY)	4,1	5,0	4,9	7,1	6,2	6,1	6,4	6,3	5,3	6,2	6,5
CPI Inflation (% YoY)*	2,0	1,8	1,9	2,3	1,5	1,5	1,6	1,1	2,0	1,4	1,7
Wibor 3M (%)**	1,73	1,73	1,73	1,72	1,70	1,70	1,70	1,70	1,72	1,70	1,95
NBP reference rate (%)**	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,75
EURPLN**	4,23	4,23	4,31	4,18	4,21	4,25	4,24	4,22	4,18	4,22	4,15
USDPLN**	3,97	3,70	3,65	3,48	3,42	3,46	3,39	3,35	3,48	3,35	3,19

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 05/21/2018				
10:00	**Poland**	**PPI (% YoY)**	**Apr**	**0,3**	**0,7**	**0,8**
10:00	**Poland**	**Industrial production (% YoY)**	**Apr**	**1,8**	**7,8**	**9,5**
		Tuesday 05/22/2018				
16:00	USA	Richmond Fed Index	May	-3,0		
		Wednesday 05/23/2018				
9:30	Germany	Flash Manufacturing PMI (pts)	May	58,1	57,6	57,8
10:00	**Poland**	**Retail sales (% YoY)**	**Apr**	**9,2**	**8,2**	**8,1**
10:00	Eurozone	Flash Services PMI (pts)	May	54,7	54,8	54,7
10:00	Eurozone	Flash Manufacturing PMI (pts)	May	56,2	55,9	56,0
10:00	Eurozone	Flash Composite PMI (pts)	May	55,1	55,0	55,0
15:45	USA	Flash Manufacturing PMI (pts)	May	56,5		56,5
16:00	Eurozone	Consumer Confidence Index (pts)	May	0,4		0,4
16:00	USA	New home sales (k)	Apr	694	675	679
20:00	USA	FOMC Minutes	May			
		Thursday 05/24/2018				
8:00	Germany	Final GDP (% QoQ)	Q1	0,3	0,3	0,3
14:00	**Poland**	**M3 money supply (% YoY)**	**Apr**	**5,8**	**6,0**	**5,9**
14:30	USA	Initial jobless claims (k)	w/e	222		220
16:00	USA	Existing home sales (M MoM)	Apr	5,60	5,63	5,57
		Friday 05/25/2018				
10:00	Germany	Ifo busienss climate (pts)	May	102,1	101,7	101,9
10:00	**Poland**	**Registered unemplyment rate (%)**	**Apr**	**6,6**	**6,2**	**6,3**
14:30	USA	Durable goods orders (% MoM)	Apr	2,6	0,1	-1,4
16:00	USA	Final U. of Michigan Sentiment Index (pts)	May	98,8	99,0	98,8

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank

** Reuters

MACRO MAP

Jakub BOROWSKI
Chief Economist
tel.: 22 573 18 40
jakub.borowski@credit-agricole.pl

Krystian JAWORSKI
Senior Economist
tel.: 22 573 18 41
krystian.jaworski@credit-agricole.pl

Jakub OLIPRA
Economist
tel.: 22 573 18 42
jakub.olipra@credit-agricole.pl