Poland: Labour market remains firm but cooling is evident

In December, average wages in the corporate sector rose by 10.3% year-on-year, and employment by 2.2% YoY, both below the consensus. While the situation in the Polish labour market remains favourable, some signs of cooling are visible

Poland's labour market remains tight

Despite the payment of annual awards and bonuses, overall wage growth came in lower than expected (12.6% YoY), which may have been partly due to the withholding of raises in anticipation of an increase in the minimum wage from the beginning of 2023 and/or an increase in sick leave due to an unusually high number of flu cases. At the same time, employment fell by 2,300 from November, which translated into a lower-than-expected annualised reading (2.2 vs 2.3% YoY).

Weaker-than-expected figures for December do not change the positive assessment of the labour market. The strength of labour demand and labour shortages is evidenced, among other things, by the rapidly growing employment of immigrants. Nearly 800,000 refugees have taken up work in Poland on the basis of simplified procedures (and are not accounted for in official stat office data), while only about 15,000 people from Ukraine are listed in the registers as unemployed. At the end of last year, the number of foreigners insured with Social Security exceeded one million people.

Demand for labour is facing constraints on the supply side, resulting in double-digit wage growth. Elevated inflation is translating into an increase in wage expectations in sectors recording favourable financial results. At the same time, as of early 2023, the minimum wage increased by 16%, which is likely to translate into an adjustment of the entire wage grid in the economy.

The economic downturn will weaken job creation, but a significant increase in the unemployment rate is not expected. For structural and demographic reasons, the Polish market is facing labour shortages. The working-age population is shrinking, and the potential for further increases in the labour force participation rate is also steadily declining. Under such circumstances, upward pressure on wages should be expected to continue, although wage growth is likely to remain slower than the rate of price growth in the first part of this year.

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