

## Poland sees double-digit real wage growth

Average wages in the enterprise sector rose 12.9% year-on-year in February (nominal), above expectations (11.3% YoY), following a 12.8% increase in January. Real wage growth is the highest since the end of 1999, signalling a recovery in consumption (weak so far) and sticky core inflation in Poland



Source: shutterstock

The better-than-expected wage data stems from a tight labour market, with limited labour supply. Another jump in the minimum wage from the beginning of 2024 is also generating upward pressure on average wages.

Declining demand for labour has so far been seen mainly in some manufacturing industries (e.g., furniture production), but this has had little impact on overall wage dynamics. Real wage growth is the highest since the late 1990s.

The coming months should show whether the 20% increase in public sector wages, including a 30% increase in teachers' salaries, will be an additional factor generating wage pressure in the business sector due to competition for workers. The experience of some CEE countries has

shown that this can provide a boost to private sector wage growth. Therefore, we expect wage growth to remain in double digits throughout the year.

Employment growth (among companies with 10 or more employees) is slowing (-0.2% YoY in February, consensus -0.1%). Although we are seeing job cuts in some manufacturing industries (especially furniture production), and others (textiles and related) are facing increasing foreign competition (especially from Asia), overall labour demand in Poland is quite strong. The main barrier to employment growth remains on the supply side, and companies remain reluctant to make more job cuts, fearing that when the economy improves, labour cannot be found quickly.

The overall picture of the labour market remains strong, which suggests relatively strong consumer demand in the coming quarters (especially given the high indexation of pensions and social security benefits). Therefore, we expect consumption to be the main driver of growth in the domestic economy this year, although the propensity to save remains quite high at the beginning of 2024 and the consumption recovery may be lagged in this cycle.

The strong pace of wage growth is the main reason why services inflation remains high. Even a possible decline in goods inflation to zero will not bring core inflation back to the National Bank of Poland's target (2.5% YoY), as services inflation may remain as high as 6-7% YoY in the coming quarters. This is one of the reasons for the persistence of inflation in Poland. This is a much more important CPI driver than the much-discussed topic of unfreezing energy and gas bills. The real problem with inflation is labour costs and core inflation, which are not properly offset by investment and productivity growth. Meanwhile, the regulatory decisions to unfreeze electricity and gas prices are less inflationary than a few months ago due to the simultaneous decline in wholesale energy prices. We do not expect rate cuts in 2024.

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