

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.

Author

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person

for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.