Poland: Strong employment but wage growth subsides as July spike fades

In August, employment in the corporate sector rose 2.4% year-on-year as expected, up from 2.3% in July, underlining strong labour demand. However, wages were weaker, rising 12.7% YoY (consensus 13.9%), following a string of hikes and bonuses which brought growth to 15.8% YoY in July

Inflation is outpacing wage growth in Poland

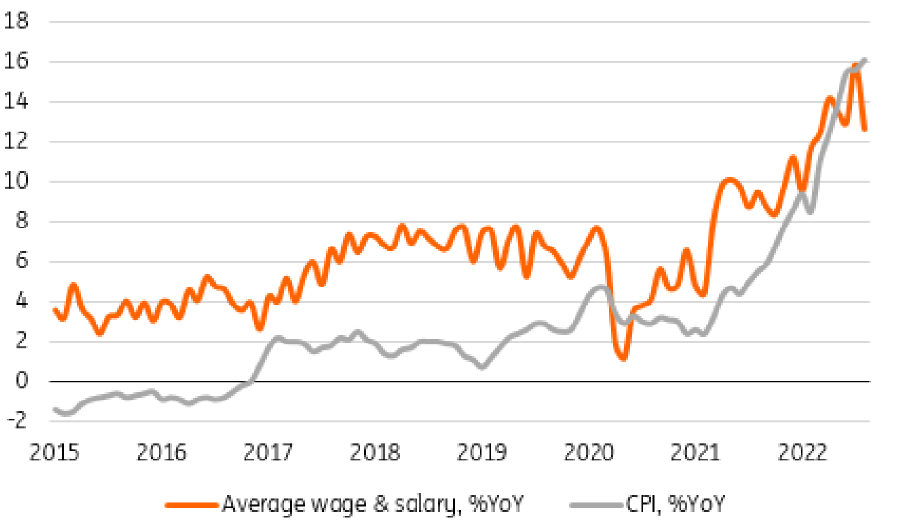
The lower year-on-year wage growth in August likely resulted from fewer wage hikes, bonuses and inflation benefits, which boosted the July figure. Those pay increases were primarily seen in the mining, energy and forestry categories. Some companies likely waited to boost pay until the personal income tax reduction took effect in July. As those effects faded in August, wage growth again fell below inflation (16.1% YoY). Companies may also be limiting salary increases in anticipation of a strong increase in the minimum wage next year (in January and July). As a result, for the last four months, wage growth has only outpaced inflation in July. The impact of this has been reflected in disappointing retail sales data, where there has been a clear decline in demand for durable goods, among other things.

However, the overall health of the labour market remains good. Labour demand is strong despite growing refugee employment (now over 400,000 of those coming after 24 Feb). These people are most likely largely unaccounted for in the statistics (only full-time employees are counted), indicating that the number of jobs being created is impressive. Strong labour demand suggests continued high wage pressure in the months ahead. However, it may slow temporarily in the second half of the year as companies prepare for the 20% minimum wage hike in 2023. We assume some stabilisation in annual wage growth before the end of 2022 but a 20% increase in the minimum wage is likely next year despite the economic slowdown.

Strong growth in the wage bill (taking into account the hiring of Ukrainian workers) is outpacing labour productivity. Along with the government's expansionary fiscal policy, this is another argument for keeping inflation stubbornly high.

Real wages in decline

CPI and nominal wages (YoY)



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