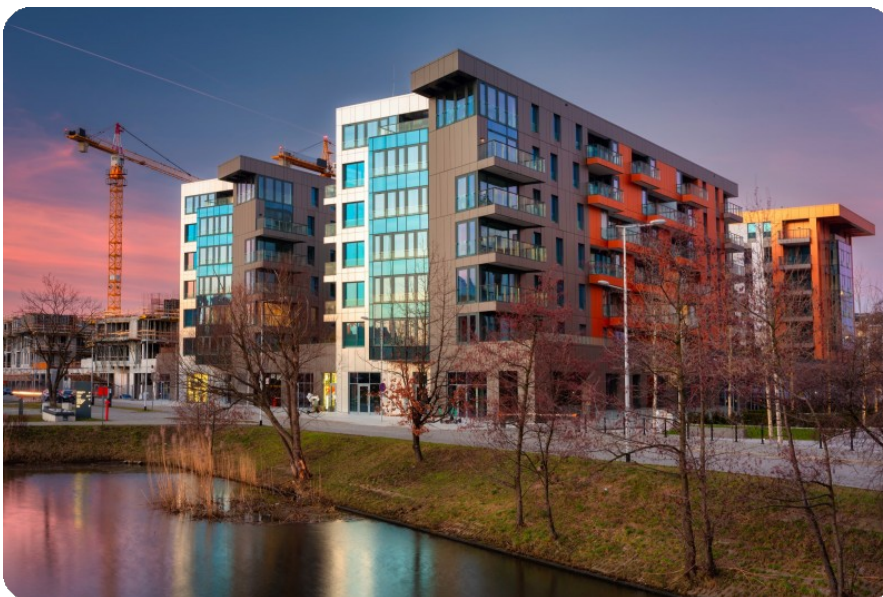


Snap | 22 November 2022

POLAND

Poland: Strong labour demand, but real wages in decline

In October, employment in the business sector grew by 2.4% YoY, beating both expectations and the previous print (2.2%). Wage growth came in below expectations (13% vs 14.2% YoY), as companies prepare for economic slowdown and a strong hike in the minimum wage next year. Given the labour shortage, markets should adjust more via wages than via employment



Labor demand remains strong despite signs of a slowdown in some sectors, such as construction. Adding to this is the large number (approximately 400,000) of refugees from Ukraine who have found work in Poland since the war broke out and are likely to be largely unaccounted for in the CSO's employment data. Combined with the demographics, this suggests a continued tight labor market and little room for unemployment to rise despite the economic slowdown that Poland is facing in 2023.

However, after a very successful start to the year, a slowdown in demand for jobs is evident in many areas of the economy. This is primarily seen in manufacturing, where 7,000 full-time jobs have been lost since January. Information and communications is still doing very well (14,000 jobs gained), which may be related to the relocation of some companies to Poland from the East after the start of the Russian aggression. Employment in retail, among others, is

also growing, which is probably related to the influx of refugees into the country.

On the other hand, wage growth was weaker than expected - its rate slowed from 14% to 13% YoY, below consensus (14.2% YoY). Given how strong labor demand is, we can assume that the lower propensity of companies to raise wages is due to preparation for the economic slowdown, but also to prepare company budgets for a large increase in the minimum wage in 2023.

It should be noted here that in real terms, wages have been falling almost continuously since April, and this is unlikely to change in 2023 as well. The trend is already resulting in weaker consumer demand, especially for durable goods. This is one of the key reasons for the slowdown in GDP growth we expect next year.

So far, everything indicates that the condition of the labor market, for both employment and wages, will be better than that assumed in the latest NBP inflation projection. This is one of the reasons why we believe that the return of CPI to the NBP's target may prove to be for longer than the projection assumes. This will be reflected primarily in stubbornly high core inflation. Also we point out that with the structural labour shortage, the labour market should adjust via slower wage dynamics than employment cuts. Companies prefer to hoard labour when any slowdown is seen as temporary and to rather adjust wages - this time however even a wages slowdown may be shallower due to the strong countercyclical hike in the minimum wage planned for 2023 (by 19.6%).

Author

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

THINK economic and financial analysis

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.