

## Covid's new wave may calm Poland's labour market, but only temporarily

Employment in Poland's enterprise sector grew by 0.5% YoY in October, as expected, down from 0.6% the previous month. Wages slightly underperformed, increasing by 8.4% YoY, but remain lacklustre



Shoppers in Krakow, Poland

Monthly changes in Poland's employment are increasingly moving to the pattern we often see at this time of year. Redundancies following the ending of job protection schemes are diminishing. But the short-term risk for the jobs' market is the latest wave of Covid sweeping Europe and that will surely last until early next year. We do think Poland's economy, however, is becoming more resilient to the pandemic.

That aside, the labour market's leading indicators look to be very sound; a historically high share of companies is planning to increase both employment and pay, indeed wage hike plans are above their pre-pandemic levels. And we think that will translate into higher prices next year. We also notice a structural imbalance in the labour market as there are record-high vacancies. A survey from the central bank, the NBP, indicates that 47% of companies are reporting job openings, the highest we've seen since 2016.

A shortage of workers strengthens their bargaining power. So it is hardly surprising that firms are signalling that the prices of their products and services are set to rise because of higher costs. And we're not just talking about pay here; higher fuel and energy prices are also playing a part. And if you've got higher inflation, that normally translates into higher wage demands. We should see the effects of that soon in 2022.

We expect more companies will experience higher wage growth than productivity and that's a major factor behind our inflation forecasts which are higher than the NBP's projections. We see core inflation at 4.7% on average next year and 4.1% in 2023. Core inflation is set to stabilise at a high level, while headline CPI should decrease, mainly on base effects.

As we end the year, Poland will switch from supply-side inflation drivers to strong demand and wages. Therefore, we think NBP rate hikes may not end even as headline CPI starts to slow. We think the central bank will continue to increase rates in order to see a decline in core inflation within the next two to three years.

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