

Employees still call the shots

TOP MACRO THEME(S):

- **Duel of demand and supply in the labour market (p.2):** Sensitivity of labour market to economic conditions has weakened in recent years, in particular in 2q21-3q22. Limited labour supply was a constraint to post-pandemic employment recovery, while at the same time remains workers' safety buffer during the downturn. We see, however, that in 4q22-2q23 demand conditions again seemed to have a higher impact on employment.

WHAT ELSE CAUGHT OUR EYE:

- **Average wage in the national economy in 2q23 equalled 7006 PLN, slowing down to 13.8% y/y vs 14.3% y/y in 1q23.** It was the first quarter since 1q22 when wages grew in real terms, and the second consecutive one when the average wage for the total economy has increased faster than in the enterprise sector.
- **NBP quarterly survey on credit market conditions showed a recovery of demand in 2q23, while further improvement is expected in 3q23.** It is consumer segment that stands behind rebounding demand (more so with regard to mortgages than consumer loans) as well as investment loans for big enterprises. Demand for borrowing from SMEs remains subdued.
- **According to the Ministry of Family and Social Policy, expenditures related to the 800+ child subsidy will reach PLN 70bn in 2024, with PLN 24bn accounting for the indexation of previous 500+ benefit programme (in line with our earlier estimates).**

THE WEEK AHEAD:

- **We expect that the final estimate will confirm that CPI inflation in July fell to 10.8% y/y (vs 11.5% in June), while in monthly terms prices fell by 0.2%.** This might be the last reading above 10%, although as for now our estimates point to a slightly higher risk of still double-digit inflation in August. Wednesday will bring release of core inflation measures and we estimate that the main of them (CPI less food, energy and fuel) dropped to 10.7%.
- **The GDP decline in 2q23 should be more profound than in 1q23 (-0.5% y/y vs -0.3% y/y),** reflecting persisting pullback in consumer spending.
- **Current account balance in June** likely improved thanks to falling imports and resilient exports translating into deficit getting very close to 0% of GDP.

NUMBER OF THE WEEK:

- **15.10** – President A.Duda announced that parliamentary elections will take place on October 15.

CHART OF THE WEEK: Real wage growth



Source: Statistics Poland, PKO Bank Polski

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	2022	2023
Real GDP (%)	5.1	0.7
Industrial output (%)	10.5	-0.9
Unemployment rate# (%)	5.2	5.2
CPI inflation** (%)	14.4	12.0
Core inflation** (%)	9.1	10.5
Money supply M3 (%)	5.6	7.2
C/A balance (% GDP)	-3.0	1.0
Fiscal balance (% GDP)*	-3.7	-4.8
Public debt (% GDP)*	49.1	49.2
NBP reference rate## (%)	6.75	6.00
EURPLN###	4.69	4.46

Source: GUS, NBP, MinFin, †PKO BP Market Strategy team forecasts; *ESA2010, **period averages; #registered unemployment rate at year-end; ##at year-end.

Duel of demand and supply in the labour market

- Deterioration of both domestic and external economic conditions in 1h23 resulted in a noticeable and broad-based deceleration in employment growth in Poland. Simultaneously, in recent years the sensitivity of labour market to economic conditions has become weaker than historical dependencies would imply.
- Model simulation of employment growth path and its historical decomposition both suggest that the fall in employment in the first wave of the pandemic was relatively weak, while its rebound in 2021-2022 was constrained (by poor supply) if compared with the model outcomes.
- There is a lack of clear evidence in favor of the dominant role of supply factors in determining employment growth in Poland. However, it does not preclude the fact that limited labour supply was a constraint on post-pandemic rebound in employment, and at the same time acts as a safety buffer preventing job losses during current economic downturn.

Since the beginning of 2023 labour market conditions in Poland have been deteriorating, in particular with regard to the labour demand, as reflected in the falling number of vacant places. It has been accompanied by record low, and the lowest in the EU unemployment rate, which proves that the potential for redundancies is limited. Incoming data and economic sentiment indicators point to slowing labour demand on the one hand, and persistent difficulties in finding qualified staff on the other, leaving the issue of the dominant role of either demand or supply factors unresolved.

Employment remains vulnerable to economic slowdown

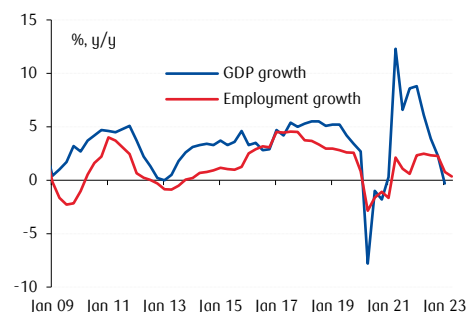
In 1h23 employment growth slowed down to 0.6% y/y from an average of 2.4% in 2022 and the deceleration was broad-based in terms of economic branches. The speed of employment growth slowed down most significantly in the IT sector, where the number of vacant places is even lower than before the outbreak of the pandemic. In line with similar developments abroad, it is in significant part a consequence of labour demand adjustment against overly optimistic development plans rooted in the pandemic period, which enforced a remote working mode. In addition, global monetary tightening cycle which increased the cost of capital made some of these investments unprofitable.

While most economic branches are subject to slowing employment growth in y/y terms, some of them are already experiencing a fall in employment such as manufacturing, construction and administration. In HoReCa and transportation, where yearly employment growths are still solid compared to other sectors, monthly developments point to a much weaker employment growth than the seasonal pattern would suggest, caused by weak tourism season and – in the case of the latter – insufficient supply of skilled workers.

Labour supply shortages constrain employment reduction

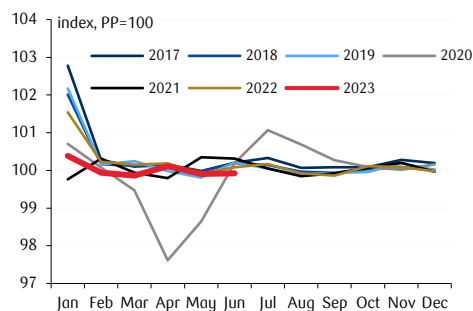
Recruitment policies of firms depend not only on their demand for labour but also on the available supply. Demographic changes, including ageing of the population, amplified by intensified emigration of young people after Poland's accession to the EU, led to a fall in the number of people of working age. Together with a fall in the unemployment rate to a historic low, this results in insufficient labour supply, in particular that with the right skills. Before the outbreak of

Employment growth in the enterprise sector against GDP growth



Source: Macrobond, PKO Bank Polski.

Employment growth against the seasonal pattern



Source: Macrobond, PKO Bank Polski

Number of vacancies



Source: Macrobond, PKO Bank Polski

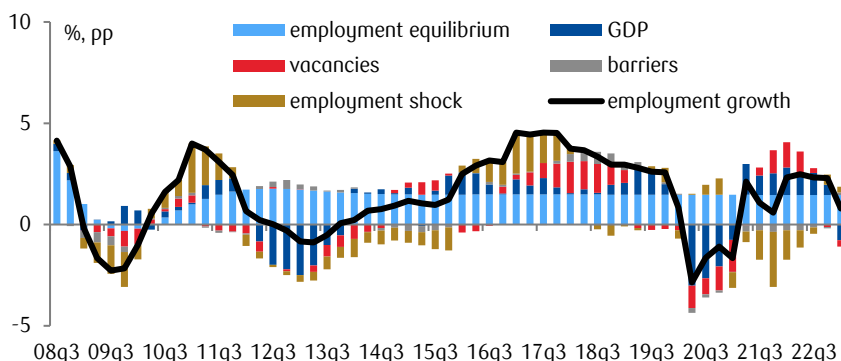
pandemic such barriers were declared by nearly 50% of firms in the construction, 40% in the manufacturing and 30% in trade. A profound easing of these constraints took place during the pandemic, which to a great extent limited economic activity. Most of the barriers returned later, although since the end of 2021 their further relaxation was observed, supported by the inflow of workers from Ukraine and – amid relative growth of wages in Poland – from more remote countries such as India.

Employment has become less vulnerable to economic conditions

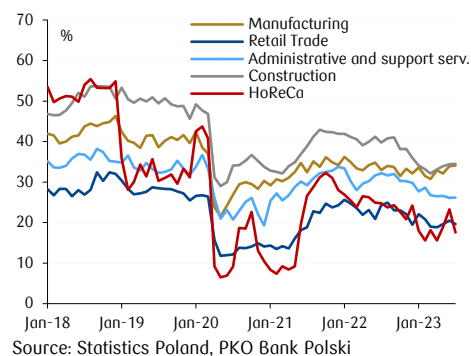
Until the outbreak of Covid-19 pandemic, employment and GDP growth were highly correlated. During the pandemic, various protective shields introduced by the government resulted in a much lower scale of employment reduction in comparison to the fall in economic activity. At the same time rebound in employment in 2021-2022 did not correspond to the scale of economic recovery and was even lower than before the pandemic, when GDP growth was not as spectacular as in 2021. More insight into such developments is provided by econometric estimations. Linear model of employment growth explained by its lag, GDP and vacancies growth as well as barrier indicator (lack of skilled workers) clearly shows that **employment growth in 2q21-3q22 should have been much higher than the actual data shows, while the scale of redundancies during the first wave of the pandemic would have been only slightly higher (graph on the right)**. Estimations for 1h23 including PKO's forecast of GDP growth in 2q23 (-0.5% y/y) indicate a significant slowdown in employment growth during this period, though roughly in line with the actual data. Similar conclusion may be drawn from the historical decomposition of employment growth based on the VAR with the same set of variables (graph below). Negative self-contribution of employment in 2q21-3q22 implies a lower responsiveness of employment to economic conditions. Meanwhile outcomes for 4q22-1q23 are to a higher extend explained by slowing GDP and vacancies, e.g. labour demand.

Despite the ongoing downturn, from the beginning of 2023 employees' concerns about the increase in unemployment declined amid the relative stabilization of enterprises' assessments of employment prospects. The incoming data, in particular the gradual increase in real wages both in the enterprise sector and in the national economy, and the reversal of the decline in consumption, indicate that the domestic economy has probably passed the trough. **In the second half of 2023 we expect a rebound in economic activity and thus a gradual increase in labour demand. However, it is possible that – similarly to 2021 – the scale of its recovery will be limited by supply barriers.**

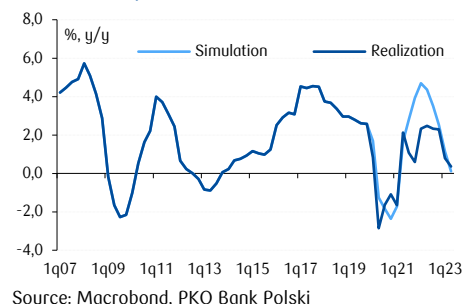
Historical decomposition of employment growth



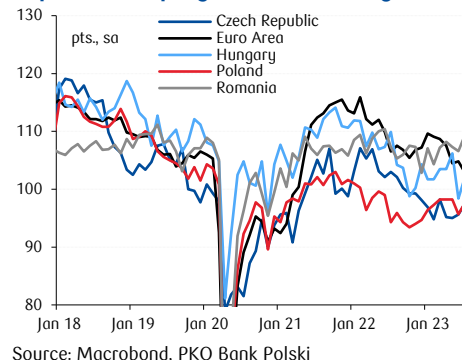
Barriers for business activity – lack of skilled workers



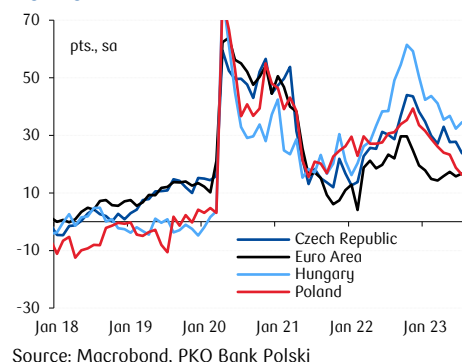
Employment growth (simulation vs realization)



Expected employment according to ESI



Expected unemployment rate in 12m horizon



Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 14 August						
POL: CPI inflation (Jul, final)	9:00	% y/y	11.5	10.8	10.8	July could have been the last month with two-digit inflation, hopefully for a really long time. Current account balance continues to improve and the deficit in relation to GDP is likely to turn into surplus soon. Resilience of exports to global downturn continues. Fall in imports slows down as terms-of-trade normalise and retrenchment in consumer spending eases.
POL: Current account balance (Jun)	13:00	bn EUR	1.392	1.323	1.145	
POL: Exports (Jun)	13:00	% y/y	3.3	4.2	2.5	
POL: Imports (Jun)	13:00	% y/y	-6.2	-3.3	-3.0	
Tuesday, 15 August						
GER: ZEW Economic Sentiment (Aug)	10:00	pts.	-14.7	-12	--	--
USA: Retail sales (Jul)	13:30	% m/m	0.2	0.4	--	--
USA: Retail sales excl. autos (Jul)	13:30	% m/m	0.2	0.4	--	--
Wednesday, 16 August						
POL: GDP growth (2q)	9:00	% y/y	-0.3	-0.3	-0.5	Consumer recession in 2q23 continued to drag down GDP growth
EUR: GDP growth (2q)	10:00	% y/y	0.6	0.6	--	
EUR: Industrial production (Jun)	10:00	% y/y	-2.2	--	--	--
EUR: Employment (2q)	10:00	% y/y	1.6	--	--	--
POL: Core inflation (Jul)	13:00	% y/y	11.1	10.7	10.7	We expect core inflation momentum to slow down a bit.
USA: Building Permits (Jul)	13:30	thous.	1.44	1.468	--	--
USA: Housing starts (Jul)	13:30	thous.	1,434	1,44	--	--
USA: Industrial production (Jul)	14:15	% m/m	-0.5	0.4	--	--
USA: Minutes Fed (Jul)	19:00	--	--	--	--	--
Thursday, 17 August						
NO: Norges Bank meeting (Aug)	9:00	%	3.75	4.0	--	--
EUR: Trade balance (Jun)	10:00	bn EUR	-900	--	--	--
USA: Initial Jobless Claims (Aug)	13:30	thous.	248	--	--	--
Friday, 18 August						
EUR: HICP inflation (Jul, final)	10:00	% y/y	5.5	5.3	--	--
EUR: Core inflation (Jul, final)	10:00	% y/y	5.5	5.5	--	--

Source: GUS, NBP, Parkiet, PAP, Bloomberg, Reuters, PKO Bank Polski. Parkiet for Poland, Bloomberg, Reuters for others.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
J. Tyrowicz	5.0	"Any talk about cuts is harmful to the economy today (...). Today, I consider the level of our interest rates to be insufficient." (10.08.2023, PAP)
L. Kotecki	4.8	"Lowering interest rates at this stage would be a mistake. And I hope it doesn't happen. Behind us is only the first month of core inflation stabilization. The July Inflation Report indicates that we are missing the target even more than it seemed in March, in the previous report." (18.07.2023, Money.pl via PAP)
P. Litwiniuk	3.7	"ECB and Fed rates are rising. The latest economic thought on combating inflation, in particular in the conditions of persistent core inflation, does not encourage to ease the parameters of monetary policy in the situation in which the Polish economy finds itself now. Especially as it is to some extent mitigated by the mechanisms of fiscal policy - I am talking about shields, credit holidays, legislation on, for example, cheap loans. (...). Today, the most cautious attitude is wait&see, i.e. to wait and see what September and October will bring." (8.08.2023, PAP).
H. Wnorowski	2.7	"In my opinion, single-digit inflation in September will be for sure. Of that I have no doubts anymore. I do not even rule out such a scenario that exactly in a month in August we will see 9.8 or 9.9%. (...). I think that 10% or below 10%, or if you prefer single-digit inflation, is a symbolic dimension that means something to every member of the Monetary Policy Council. However, the truth is that our target is not single-digit inflation, but the target is 2.5% ± 1 percent." (1.08.2023, BIZNES24, PKO transl.)
A. Glapinski	2.4	"The MPC has decided that we are ending the cycle of rate hikes. Officially, we were in the tightening cycle, we were ready all the time to raise rates, now we are putting this weapon aside. No one expects something like this to happen anytime soon (...). Of course, if something happens, in the emergency mode, we can take that action, but we are no longer in that mode" (7.07.2023, NBPTv, PAP)
C. Kochalski	2.4	"In the light of the current data and information, a room for potential discussion of [rate] cuts may appear in some time, as we have already ended the hikes cycle. The very calendar indicates it could be after the summer vacation at the earliest. (...) We're still before a potential discussion on rate cuts, which sooner or later needs to happen." (13.07.2023, Interia.pl via Bloomberg).
W. Janczyk	2.0	"The current rates level seems adequate given the information we have today. (...) " in my opinion, in the course of the last few weeks, there has come no information that would prompt resumption of rate hikes in December. Currently, no premises can be seen that would prompt such steps." (2.12.2022, PAP).
I. Duda	2.3	"In my opinion, if the conditions are favourable, i.e. if we see a rapid drop in inflation, if it is a long-term downward trend, the MPC will have arguments to carefully discuss interest rate cuts, perhaps even after vacation. Of course, I must make a caveat here (...) everything depends on the incoming data and information" (17.07.2023, Business Insider, PAP, PKO transl.)
G. Maslowska	2.1	"Theoretically, it is possible to start the phase of interest rate cuts even before the newest inflation and GDP projection appears. (...) if, for example, in September or October, the MPC members will decide that the incoming data are so convincing that it is worth deciding on the first cut before the projection appears, I think that it would be understandable for participants of economic life" (18.07.2023, PAP)
I. Dabrowski	1.9	"(...) I think that there is a high probability that interest rates will remain at their current level until the end of September. If the MPC was to consider a motion to cut interest rates, it would rather happen in October (...) Although if we saw a rapid decline of the index by another 5p. in the summer months, and we would find ourselves at clearly single-digit inflation levels, I cannot rule out that this will happen in September." (26.06.2023, PAP)

*the higher the indicator the more hawkish views. The positioning has been made based positively on PAP survey conducted among economists at banks in Poland (scale 1-5). ^Quotes in bold have been modified in this issue of Poland Macro Weekly.

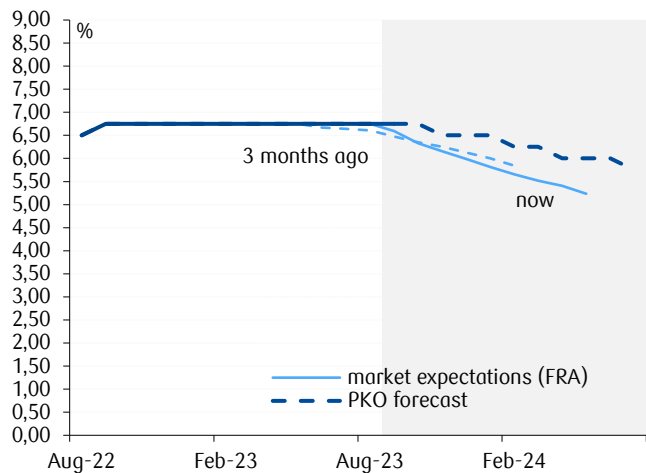
Interest rates – PKO BP forecasts vs. market expectations

Date	1M	2M	3M	4M	5M	6M	7M	8M	9M	
	10-Aug	10-Sep	10-Oct	10-Nov	10-Dec	10-Jan	10-Feb	10-Mar	10-Apr	10-May
WIBOR 3M/FRA†	6,69	6,48	6,22	6,03	5,78	5,56	5,35	5,21	5,05	4,88
implied change (b. p.)		-0,21	-0,47	-0,67	-0,91	-1,13	-1,35	-1,48	-1,64	-1,82
MPC Meeting	-	6-Sep	4-Oct	8-Nov	6-Dec	-	-	-	-	-
PKO BP forecast*	6,75	6,75	6,50	6,25	6,00	5,75	5,50	5,25	5,00	5,00
market pricing^		6,54	6,28	6,09	5,94	5,77	5,61	5,47	5,31	5,14

WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

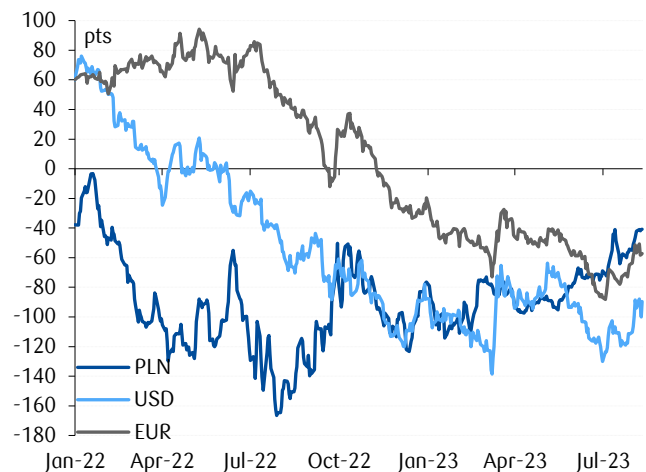
NBP policy rate: PKO BP forecast vs. market expectations



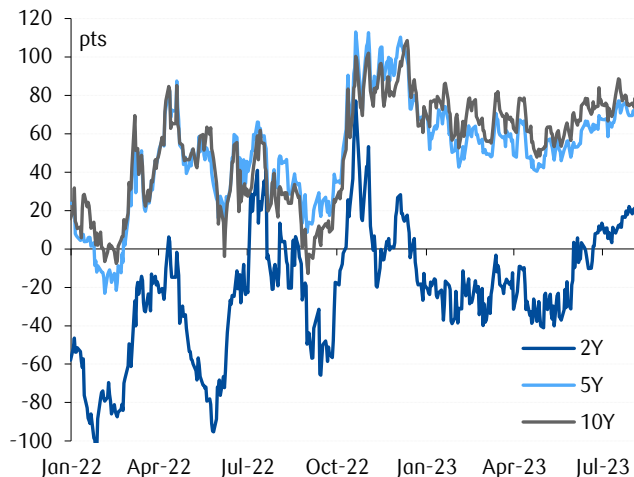
Short-term PLN interest rates



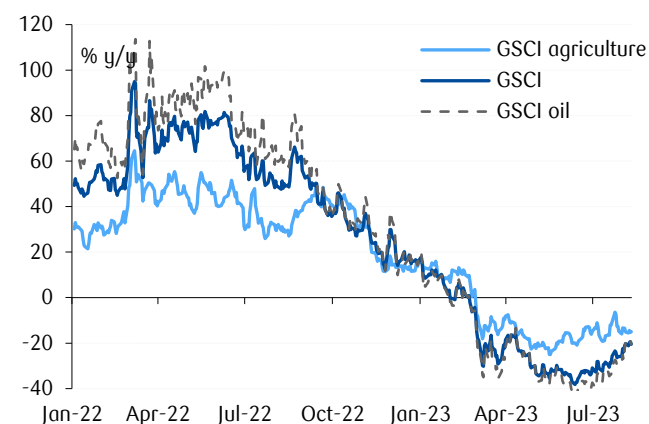
Slope of the swap curve (spread 10Y-2Y)*



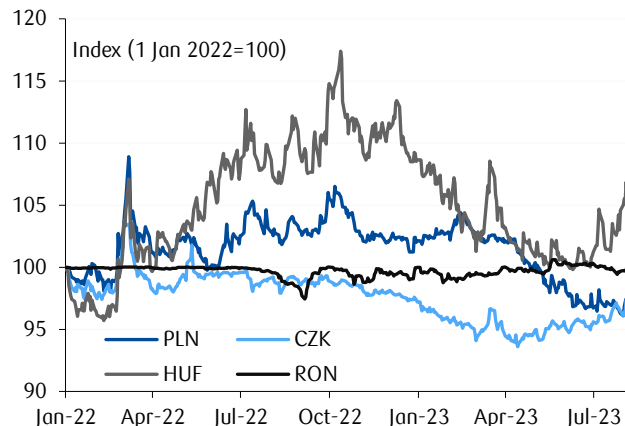
PLN asset swap spread



Global commodity prices (in PLN)

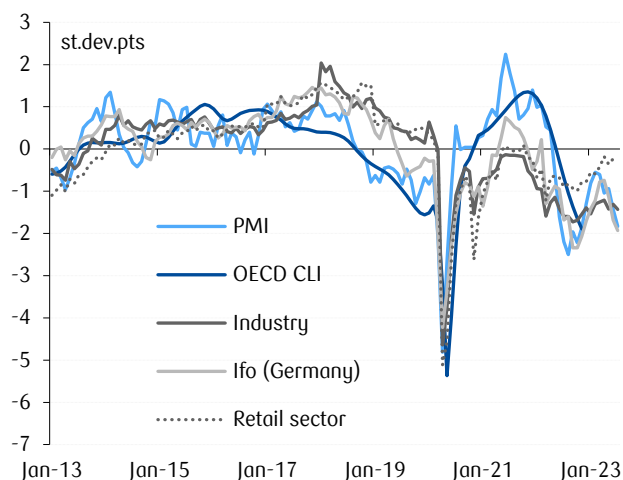


Selected CEE exchange rates against the EUR

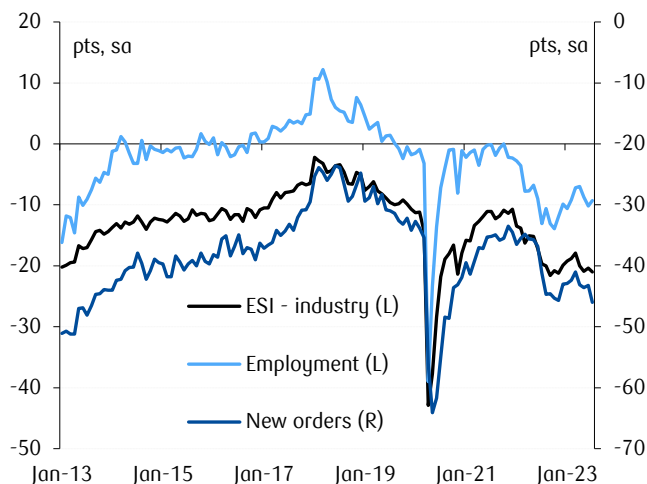


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

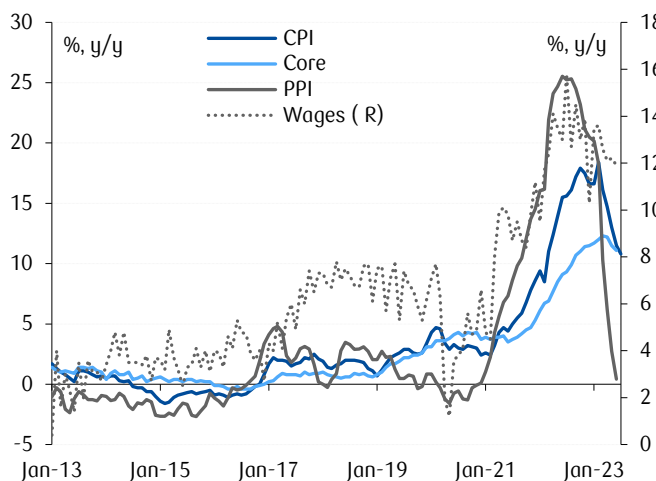
Economic sentiment indicators



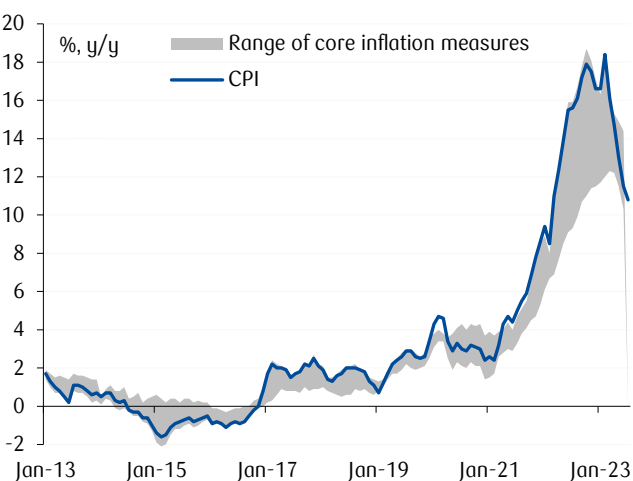
Poland ESI for industry and its components



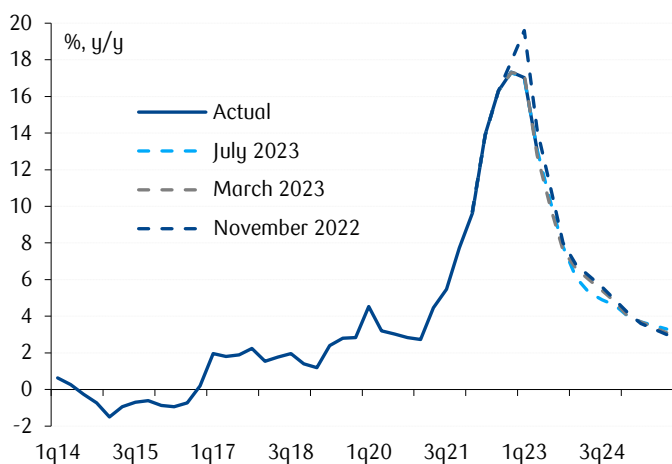
Broad inflation measures



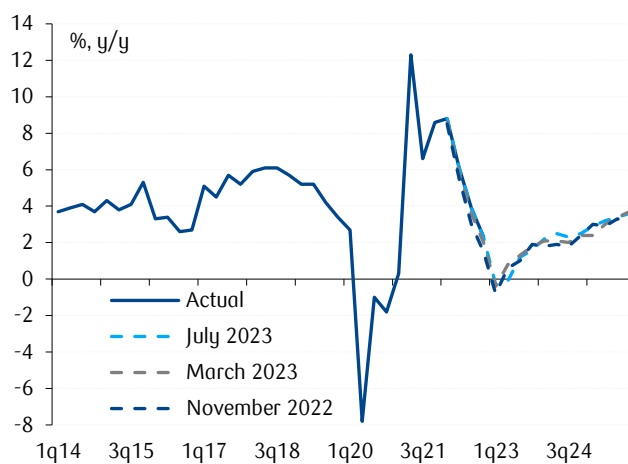
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

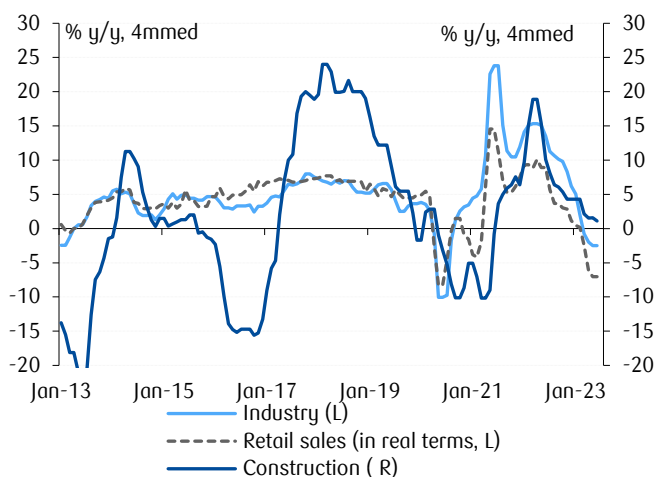


Real GDP growth - NBP projections vs. actual

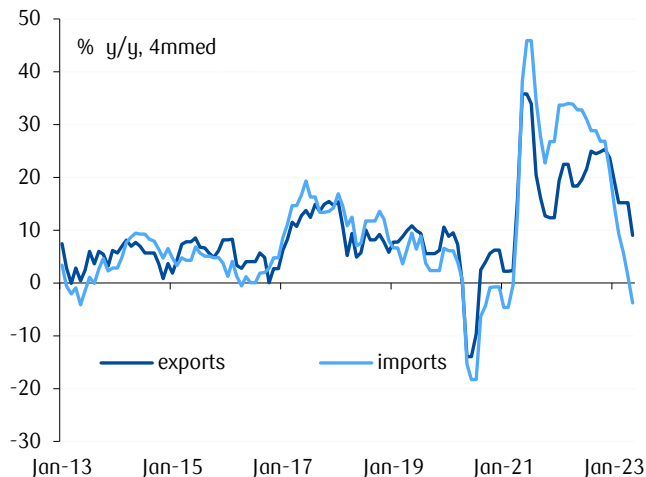


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

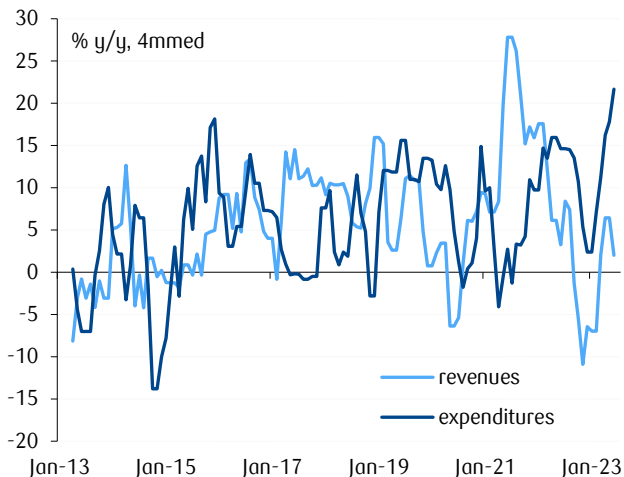
Economic activity indicators



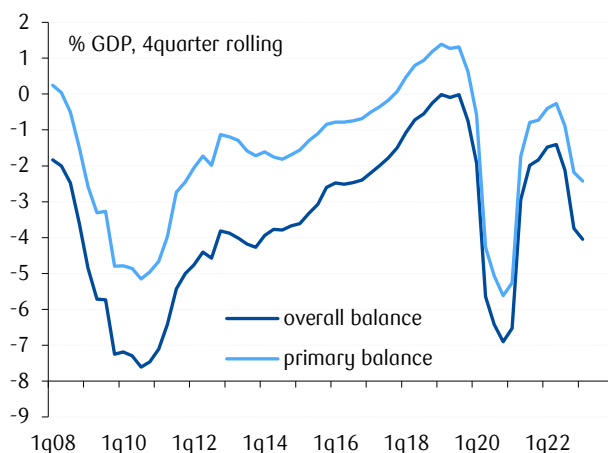
Merchandise trade (in EUR terms)



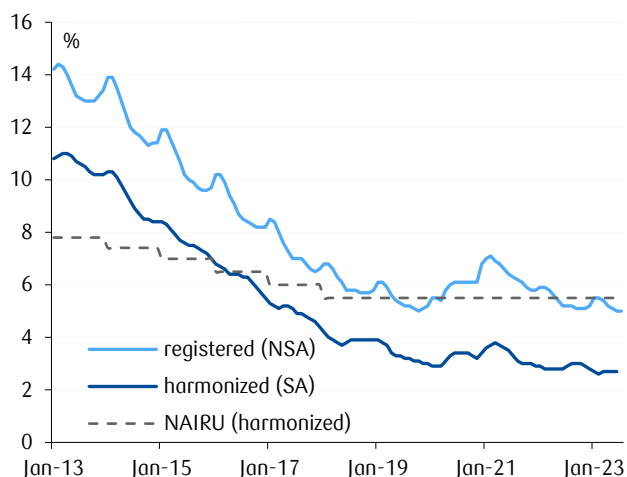
Central government revenues and expenditures*



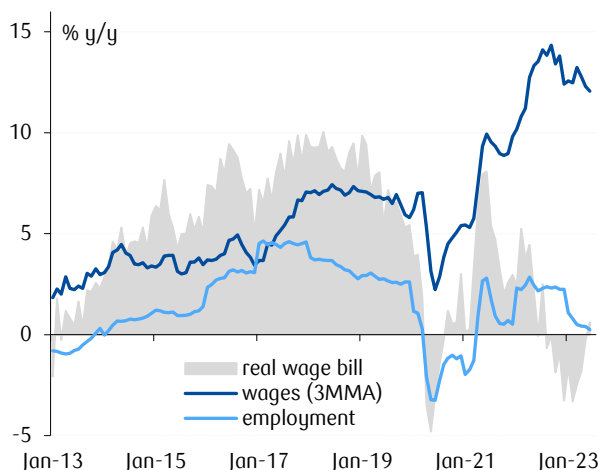
General government balance (ESA2010)



Unemployment rate

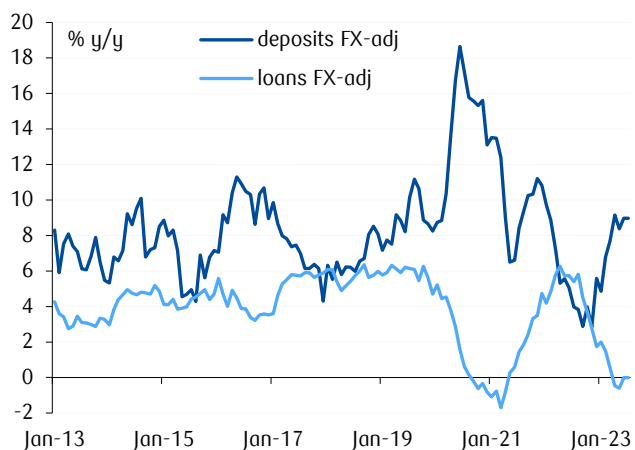


Employment and wages in the enterprise sector

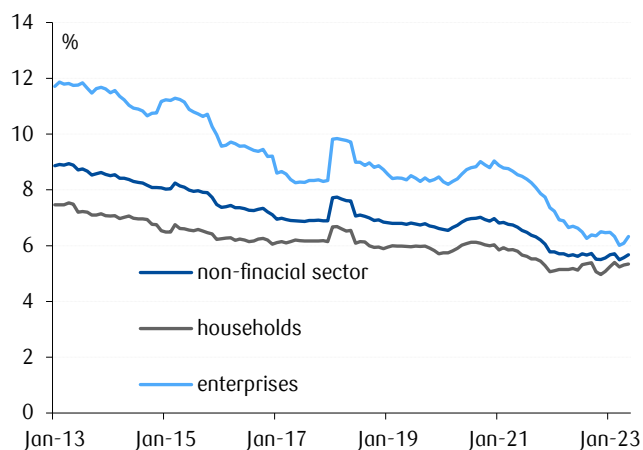


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

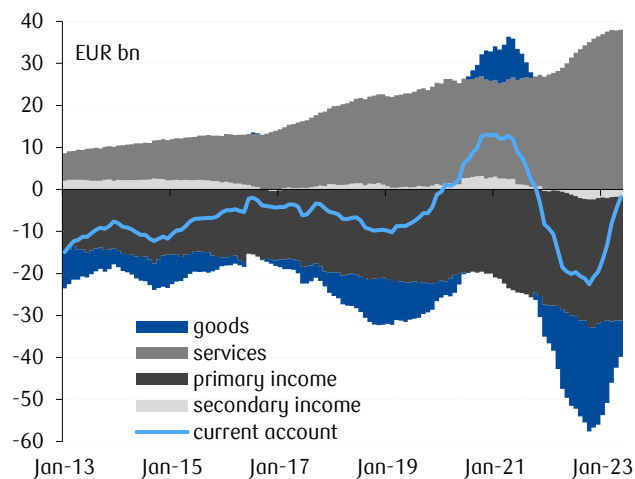
Loans and deposits



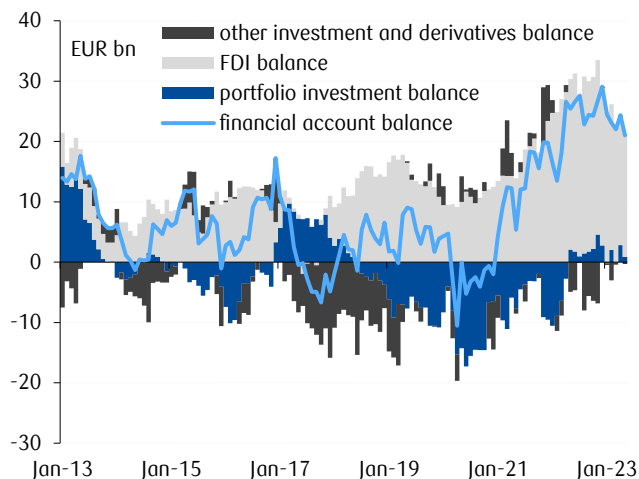
Non-performing loans (NPLs) - by sectors*



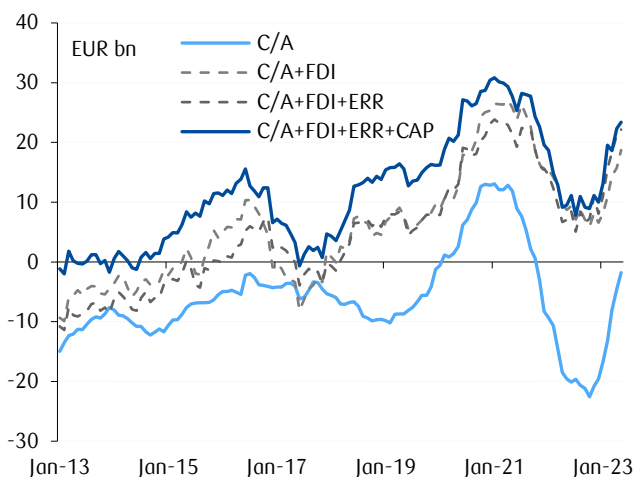
Current account balance



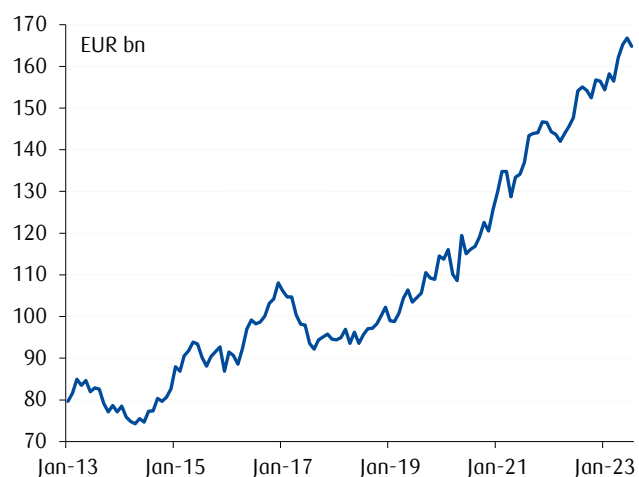
Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



Source: NBP, PKO Bank Polski. *break in series in Jan2018 due to methodological changes.

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- [Disinflation ahead](#) (Dec 2, 2022)
- [Corporate profits shrink](#) (Nov 25, 2022)

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