

This time is different, again

TOP MACRO THEME(S):

- **This time is different, again (p. 2):** Labour shortages, unfilled vacancies, aging and migrations will make a downturn on the domestic labour market in 2023 look different than it was in the previous economic slowdown periods.

WHAT ELSE CAUGHT OUR EYE:

- **Consumer confidence improved slightly again in January.** The improvement in almost all sub-indices, with exception of savings, signals some relief in a troubled consumer sector. At the same time inflation expectations and consumers' fears of rising unemployment decreased. Inflation forecasts formulated by households fit into the scenario of approaching disinflation – a large part of households believed that the inflation shock observed in 2022 was temporary. Of course, we see some risk related to the stickiness of core inflation – its decline towards the target may be slow, or it may anchor at a higher level than in previous years, which would be supported by a mild course of the current economic slowdown and relatively high wage demands.
- **Core inflation inched up in December, to 11.5% y/y** (from 11.4% y/y in November). Core inflation momentum is still strong (0.9% m/m sa), although declines slowly. Our baseline scenario that a strong disinflation of commodities and energy prices, combined with a slowdown in domestic demand, will gradually translate into a decline in core inflation in the course of 2023, is still on the cards.

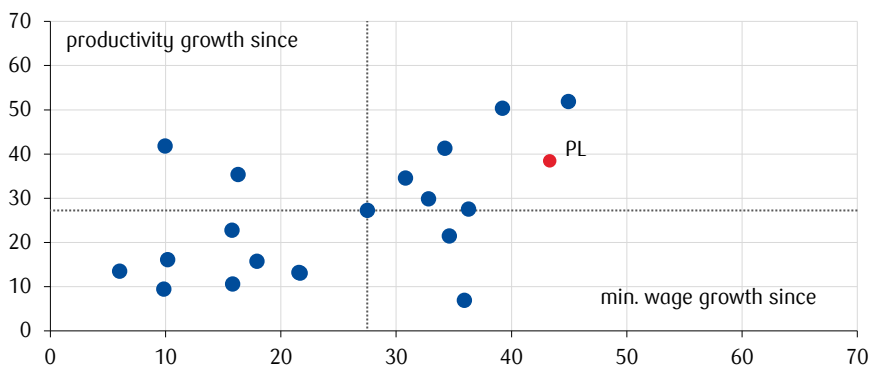
THE WEEK AHEAD:

- **The real economy data should confirm that export-oriented industries did well in December**, keeping industrial output afloat (PKOe: 0.8% y/y). Real retail sales in December continued to grow albeit at a modest pace as inflation bites consumers. Last but not least, construction continued well in civil engineering, but is on hold in buildings sub-sector.
- **Money (M3) supply expansion in December** (PKOe: 6.3% y/y) will most likely be accompanied by the first signs of consumer lending business bottoming out, as per banking stats.
- **Unemployment rate** most likely inched up (PKOe: 5.2%) on weaker demand on seasonal workers.

NUMBER OF THE WEEK:

- 7329.96 PLN - average monthly salary in corporate sector (approx. EUR 1550), crossing the 7k level for the first time.

CHART OF THE WEEK: Minimum wage growth vs productivity growth in the EU



Source: Eurostat, PKO Bank Polski.

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	2022	2023 _†
Real GDP (%)	4.5	0.1
Industrial output (%)	9.9	-2.0
Unemployment rate [#] (%)	5.2	5.4
CPI inflation ^{**} (%)	14.3	13.2
Core inflation ^{**} (%)	8.9	8.9
Money supply M3 (%)	6.3	4.5
C/A balance (% GDP)	-3.6	-2.6
Fiscal balance (% GDP) [*]	-1.7	-5.1
Public debt (% GDP) [*]	50.8	52.7
NBP reference rate ^{###} (%)	6.75	6.25
EURPLN ^{###}	4.69	4.58

Source: GUS, NBP, MinFin, [†]PKO BP Macro Research team forecasts; [‡]PKO BP Market Strategy team forecasts; ^{*}ESA2010, ^{**}period averages; [#]registered unemployment rate at year-end; ^{###}at year-end.

This time is different, again

- December 2022 data on the average wage and employment growth in the enterprise sector does not fundamentally change our view on the favourable stance of the labour market in Poland.
- In 2023 the minimum wage is about to rise by nearly 20%. In our opinion it should not constitute a threat to Poland's competitiveness.
- We expect that labour market adjustments to a weaker economic activity will mainly take place through the deceleration of nominal wage growth, accompanied by only modest increase in the unemployment rate.
- Our three main arguments in favour of this call are: still high labour shortages, negative demographic changes with rising impact on labour supply, as well as the dual nature of the Polish labour market.

The set of labour market data for December proves that the labour market in Poland remains relatively resilient to economic downturn, despite some signs of a cool down. The average monthly wage in the enterprise sector in December increased by 10.3% y/y (against 13.9% y/y in November), on the back of a slowdown in the mining sector (due to annual bonus payments partially shifted to November). Wage growth slowdown continued in some other sectors, such as trade and manufacturing. Meanwhile average employment in the enterprise sector grew by 2.2% y/y slowing down from 2.3% y/y in November, under a negative impact of higher absences, mainly on health grounds, caused by the flu epidemic.

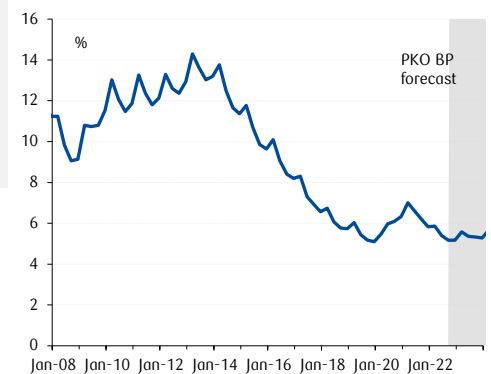
Limited labour supply amid relatively good economic conditions has been pushing unemployment rate to record low levels, close to 5%, even despite the sudden and significant inflow of refugees from Ukraine since February 2022. This has put some pressure on nominal wages, which grow at a double-digit rates, but with no apparent signs of a boost from surging inflation. In result, in real terms wages have been decreasing.

Demand for labour decreased somewhat in 2022, but the number of vacancies remains high in historical perspective. Number of newly created jobs has entered a downward trend, but remains higher than the number of liquidated positions.

In 2023 minimum wage is about to rise by nearly 20% and it is likely to have a regionally diverse impact. The minimum wage will exceed 50% of the average wage in the national economy, which can constitute a relatively high cost burden for entities operating in Eastern Poland and for the smallest enterprises, where the average wage is lower. In our opinion, the increase in minimum wage should not have a negative impact on Poland's competitiveness since its past rises were accompanied by an equivalent increase in productivity (see chart of the week).

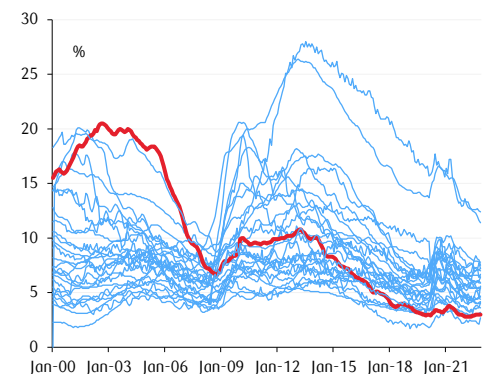
Many factors suggest that the labour market adjustment to a deterioration of economic conditions will be different than during previous economic downturns. Rising consumers' fears of unemployment together with a relatively high rate of flexible components of wages (e.g. bonuses, inflation driven salary supplements) imply that the labour market adjustment to deteriorating economic conditions will occur primarily through decelerating growth in nominal wages as it will be enabled by weakening negotiating power of employees and higher propensity to accept lower wage amid worse consumer economic situation. High number of vacant places implies that an increase in unemployment in the near term is going to be very modest. This view is supported by demographic changes causing a decline in labour supply (see chart on the next page). Moreover, enterprises are likely to hoard employment amid difficulties in finding qualified staff and the ability to adjust labour costs through the flexible components of wages. Therefore any reduction in employment is likely to apply in the first place to foreign workers, stressing the dual nature of the domestic labour market.

Registered unemployment rate (domestic methodology)



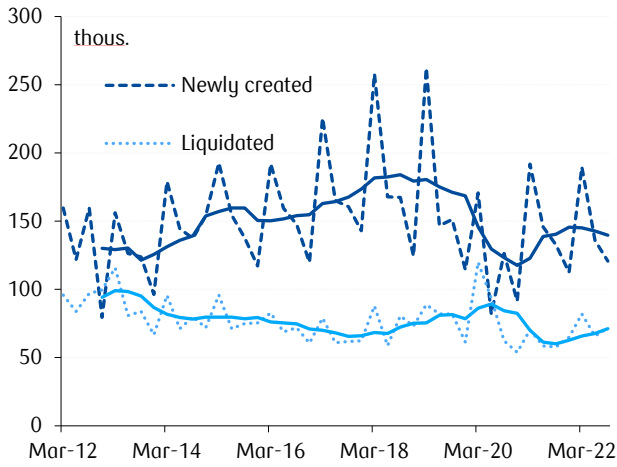
Source: GUS, PKO Bank Polski.

LFS unemployment rate (EU methodology): Poland – red line; all other EU states – blue lines

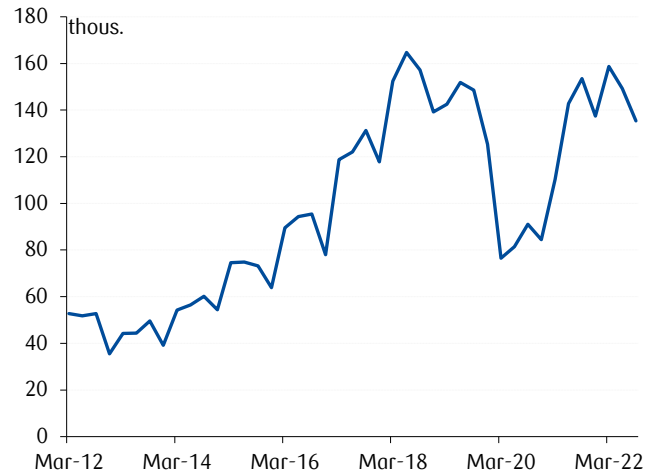


Source: Eurostat, PKO Bank Polski.

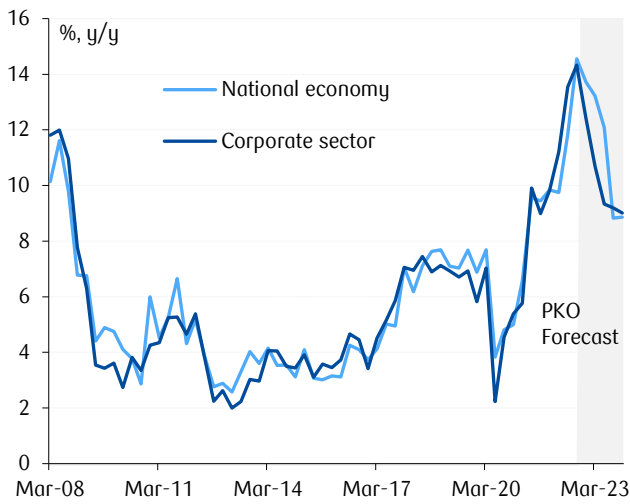
Jobs in the national economy



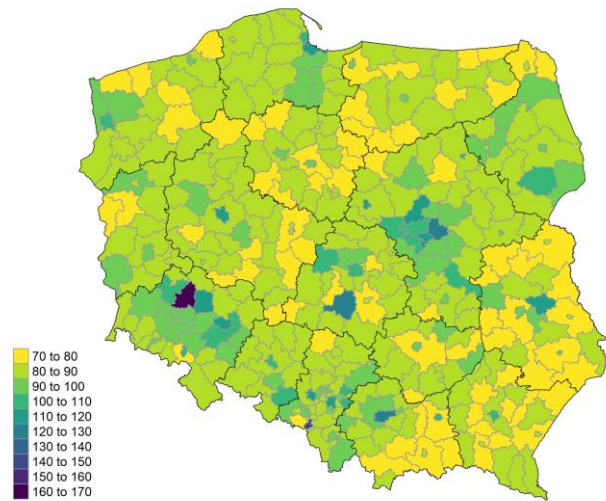
Vacancies



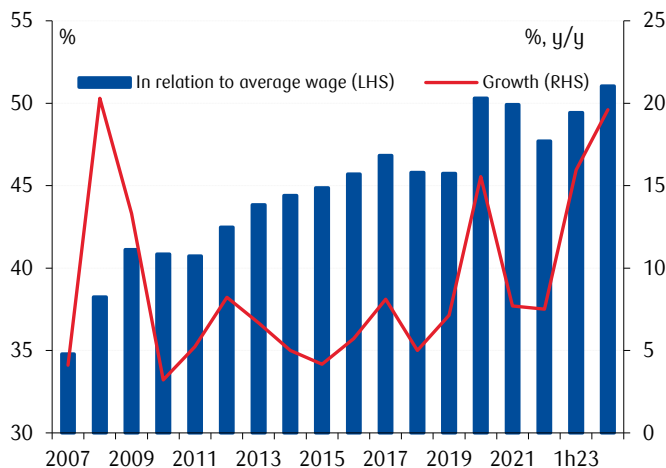
Nominal wage growth



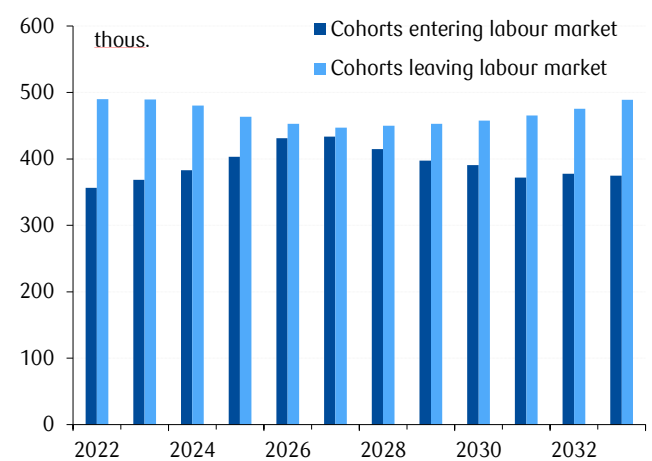
Average wage in Poland's districts in 2021 (average national wage=100)



Minimum wage growth and its level in relation to the average wage in the national economy



Shrinking labour supply



Source: GUS, Eurostat, MinFin, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 23 January						
POL: Industrial production (Dec)	9:00	% y/y	4.6	1.7	0.8	Despite an energy-related downturn, rebounding exports keep Poland's industry afloat. Powerful base effects will ignite disinflation. Civil engineering successfully mitigate lower activity in buildings construction. Rising sales reflect mainly larger population (refugees from Ukraine).
POL: PPI inflation (Dec)	9:00	% y/y	20.8	19.5	20.0	
POL: Construction output (Dec)	9:00	% y/y	4.0	2.7	2.7	
POL: Retail sales (Dec)	9:00	% y/y	1.6	1.4	1.2	
EUR: Consumer Confidence (Jan, flash)	15:00	pts.	-22.2	--	--	
Tuesday, 24 January						
GER: Manufacturing PMI (Jan, flash)	8:30	pts.	47.1	47.8	--	Consumer and mortgage lending business most likely bottomed out with rising prospects for recovery.
GER: Services PMI (Jan, flash)	8:30	pts.	49.2	49.7	--	
EUR: Manufacturing PMI (Jan, flash)	9:00	pts.	47.8	48.6	--	
EUR: Services PMI (Jan, flash)	9:00	pts.	49.8	50.2	--	
POL: Money Supply M3 (Dec)	13:00	% y/y	5.6	6.0	6.3	
HUN: MNB meeting	13:00	%	13.0	13.0	--	
USA: Manufacturing PMI (Jan, flash)	14:45	pts.	46.2	46.8	--	
Wednesday, 25 January						
POL: Unemployment Rate (Dec)	9:00	%	5.1	5.2	5.2	Seasonal patterns drive unemployment rate in December.
GER: Ifo Business Climate Index (Jan)	9:00	pts.	88.6	90.1	--	
Thursday, 26 January						
USA: GDP growth (4q)	13:30	%q/q saar	3.2	2.9	--	
USA: Personal consumption (4q)	13:30	%q/q saar	2.3	--	--	
USA: Initial Jobless Claims	13:30	thous.	190	200	--	
USA: Durable goods orders (Dec, flash)	13:30	% m/m	-2.1	2.9	--	
USA: New home sales (Dec)	15:00	thous.	640	616	--	
Friday, 27 January						
EUR: M3 money supply (Dec)	9:00	% y/y	4.8	4.6	--	
USA: Personal Income (Dec)	13:30	% m/m	0.4	0.2	--	
USA: Personal spending (Dec)	13:30	% m/m	0.1	-0.1	--	
USA: PCE Deflator (Dec)	13:30	% y/y	5.5	--	--	
USA: Core PCE inflation (Dec)	13:30	% y/y	4.7	4.7	--	
USA: University of Michigan sentiment (Jan, final)	15:00	pts.	59.7	64.6	--	

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	"In November, the Council decided to leave rates unchanged, guided by the optimistic projection, in which the decrease in the inflation rate results from completely exogenous factors: a rapid and permanent decrease in energy prices and an equally permanent and rapid strengthening of the zloty. If these assumptions fail, the projection will be revised upwards and, in order to maintain cohesion, the MPC will have to leave interest rates at today's level longer than the majority of MPC members assume today." (23.12.2022, rp.pl, PKO transl.)
L. Kotecki	4.8	"As a result of partial extinguishing of government anti-inflation shields and increasing VAT, mostly with respect to energy carriers, the contribution of energy prices, including fuels, to the inflation index in January may settle at the level of ca. 6-8 pps (...) when we add to that an increase in administered prices that usually takes place in January, the CPI inflation index encompassing all consumer goods and services, will likely settle at the level of ca. 3.5% m/m and will exceed 18% on an annual basis" (16.01.2023, PAP)
P. Litwiniuk	3.7	"In the environment where borrowers have a cushion in the form of credit holidays, which will last throughout 2023, it would be advisable, in my opinion, to tighten monetary policy more. Additional rate hikes would make the return path to the inflation target steeper. In my opinion, tolerating higher inflation generates higher costs than possible minor labour market perturbations that could result from interest rate hikes." (15.12.2022, Parkiet, PAP)
H. Wnorowski	2.7	"If that inflation impulse [inflation exceeding 20% y/y in Q1] proves rather significant ... if that happens then a return to 1-2 rate hikes would be possible. (...) I think that rather small ones; rather small as large ones are not needed. It's too early to speculate," he added. We have to wait for January readings." (13.01.2023, Biznes24, PAP).
A. Glapinski	2.4	"In my statement, I did not mention that we are not closing the cycle of increases. We are waiting for January and February. I repeat, it is difficult to predict exactly what will happen then - whether there will be a 20% increase in prices or good news again. (...) As soon as it is possible, interest rates will be lowered. Will it be possible at the end of the year? We will see. I still hope so - less than before, but I do." (5.01.2023, NBP press conference, PAP, PKO transl.)
C. Kochalski	2.4	"In the light of the current data the level is adequate. The MPC has not been raising rates since September as we have many cues indicating the impact of previously passed hikes They have already started to work. They lowered inflation by 0.5 pps this year, in 2023 it will be 3 pps." (13.12.2022, Biznes 24, PAP).
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	"Considerations about interest rate cuts are in my opinion premature (...) The weakening of global economic conditions will lead to lowering of economic growth rate in Poland, while monetary policy tightening by major central banks will limit inflation, both globally and in Poland (...) However, it is not the moment to formulate expectations as to whether the next MPC move should be a hike or a cut of interest rates." (20.01.2023, PAP)"
G. Maslowska	2.1	"The cycle of interest rate hikes has not been formally ended and therefore one cannot exclude that rates could be hiked at some point this year but currently I believe it is little likely. (...) One can visibly see that to-date rate hikes have made a very strong impact on lending situation and it does not seem it [lending] had to be curbed further." (13.01.2023, PAP)
I. Dabrowski	1.9	"A strong slowdown in inflation seems to be ahead of us. Therefore, single-digit inflation at the end of the year is very likely(...)" (20.01.2023, TVP Info, PAP, PKO transl.)

*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.

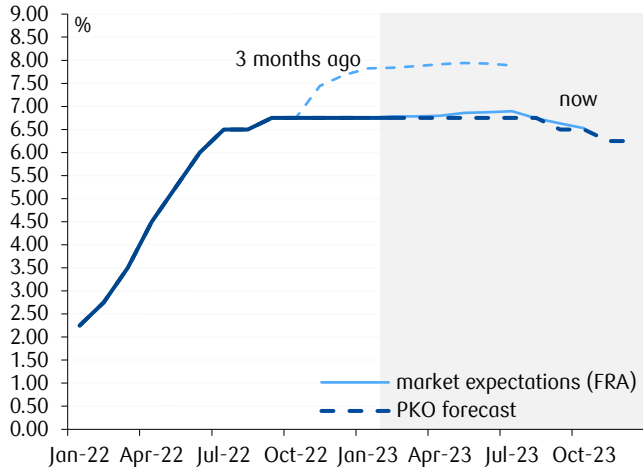
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	19-Jan	19-Feb	19-Mar	19-Apr	19-May	19-Jun	19-Jul	19-Aug	19-Sep	19-Oct
WIBOR 3M/FRA†	6.93	6.91	6.91	6.91	6.89	6.86	6.83	6.67	6.51	6.36
implied change (b. p.)		-0.02	-0.02	-0.02	-0.04	-0.07	-0.11	-0.26	-0.42	-0.57
MPC Meeting	4-Jan	8-Feb	8-Mar	5-Apr	10-May	6-Jun	6-Jul	-	6-Sep	4-Oct
PKO BP forecast*	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.50
market pricing^		6.78	6.78	6.80	6.86	6.88	6.90	6.74	6.63	6.58

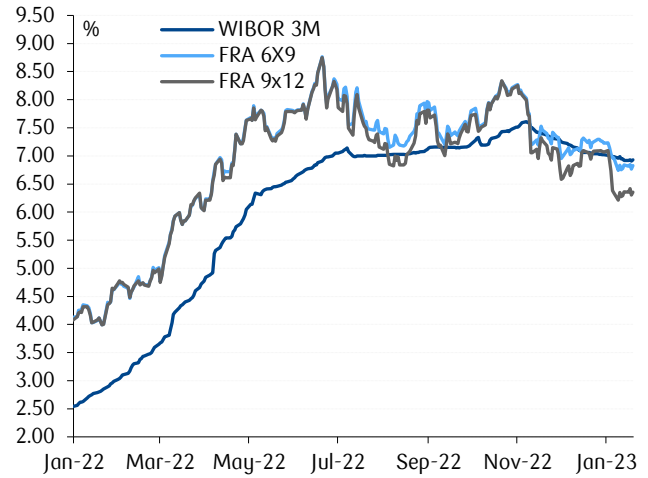
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

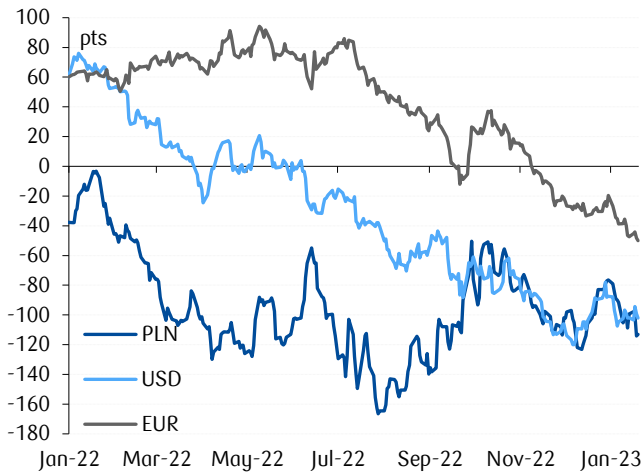
NBP policy rate: PKO BP forecast vs. market expectations



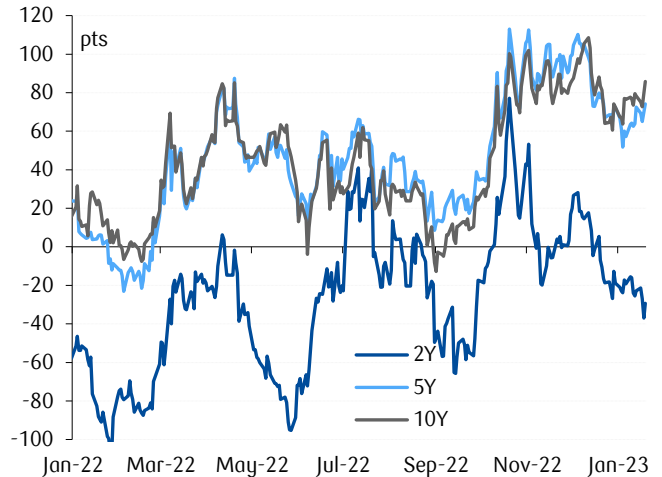
Short-term PLN interest rates



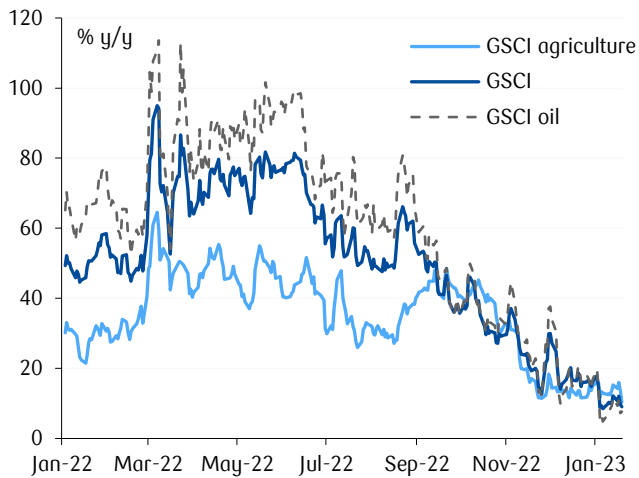
Slope of the swap curve (spread 10Y-2Y)*



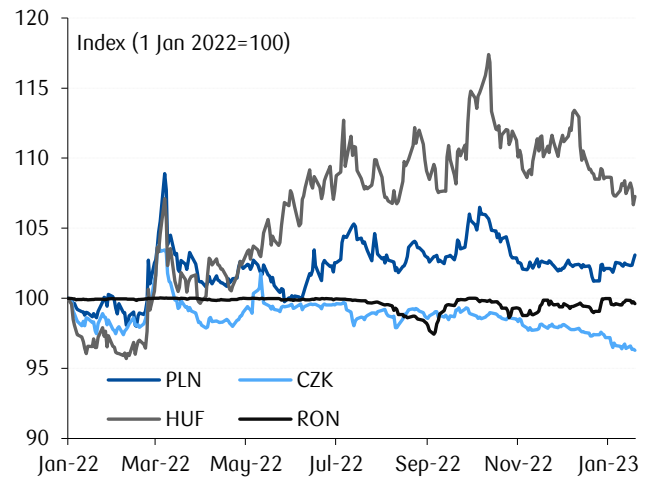
PLN asset swap spread



Global commodity prices (in PLN)

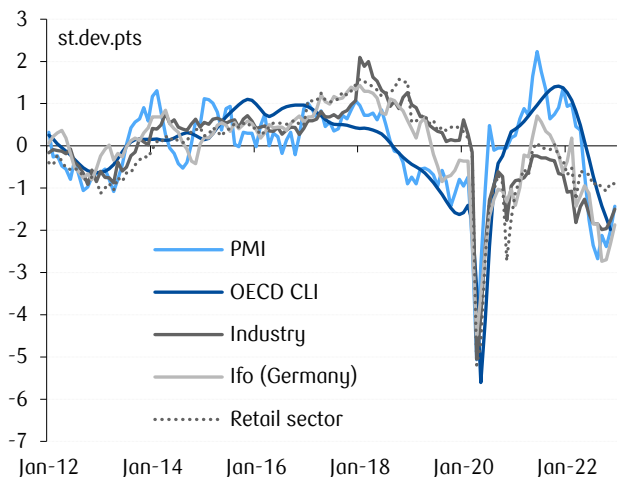


Selected CEE exchange rates against the EUR

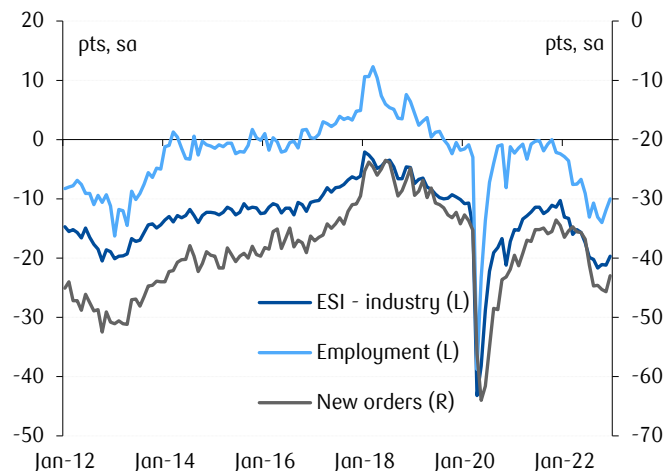


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

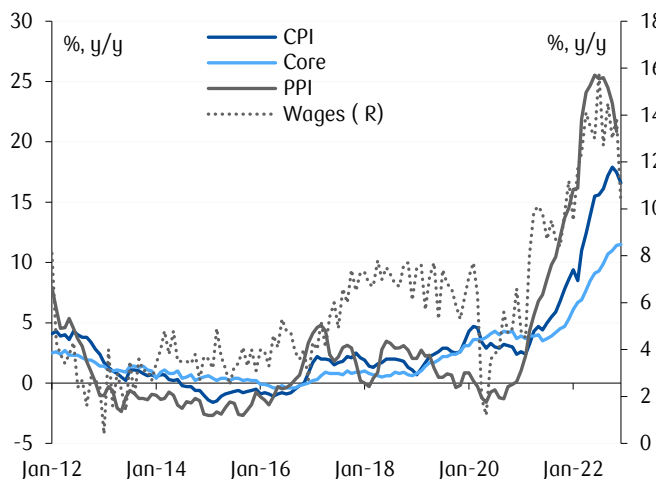
Economic sentiment indicators



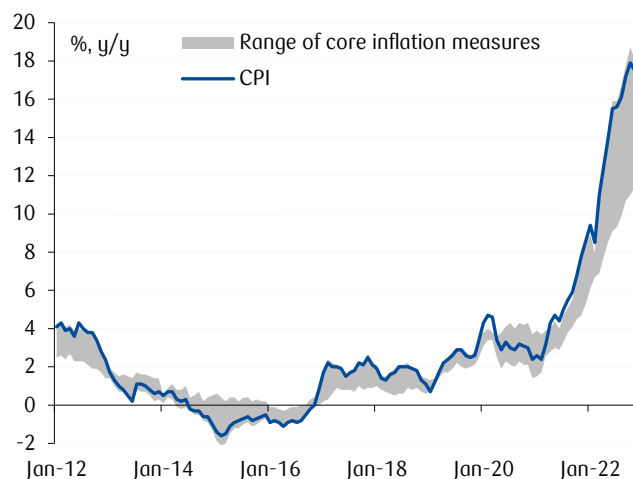
Poland ESI for industry and its components



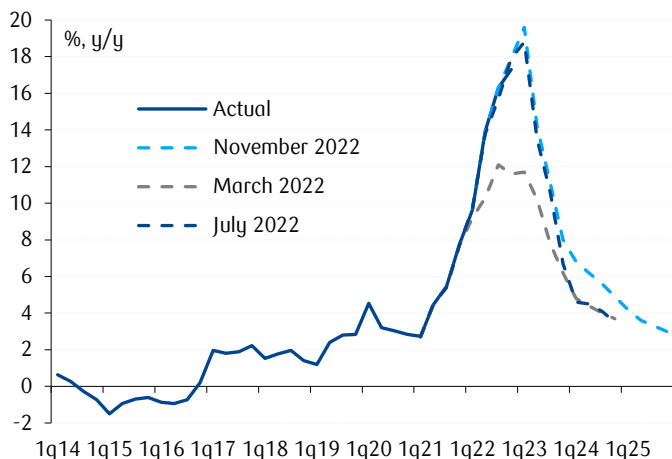
Broad inflation measures



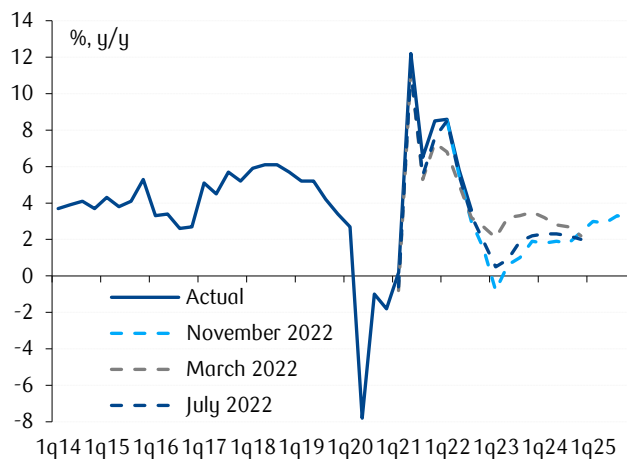
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

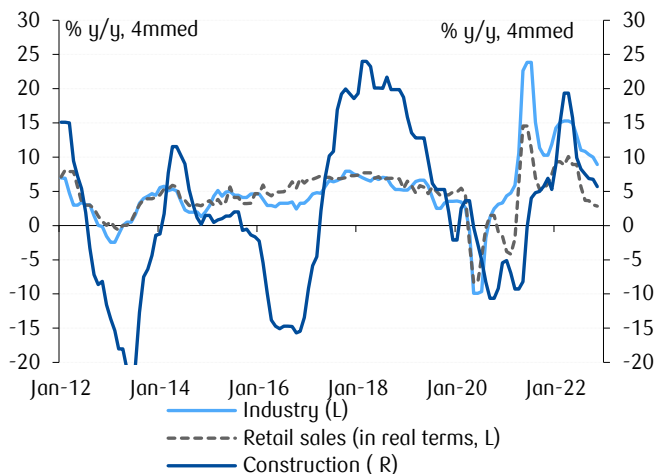


Real GDP growth – NBP projections vs. actual

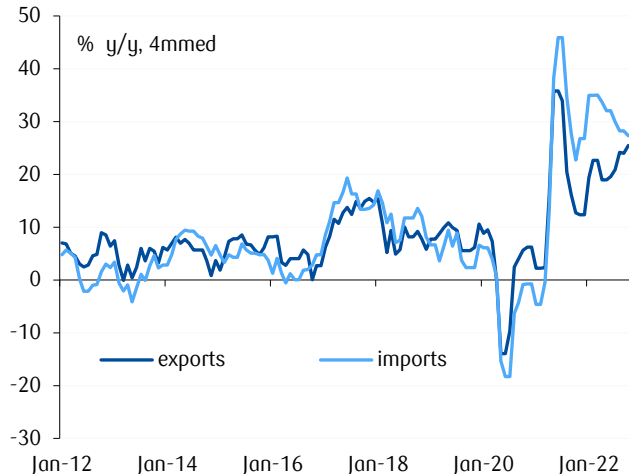


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

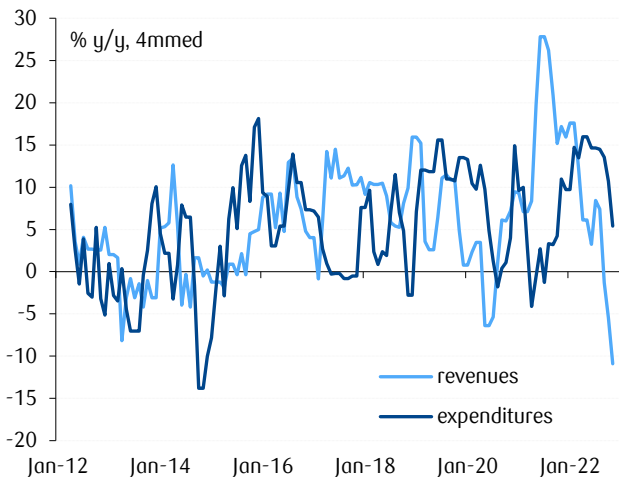
Economic activity indicators



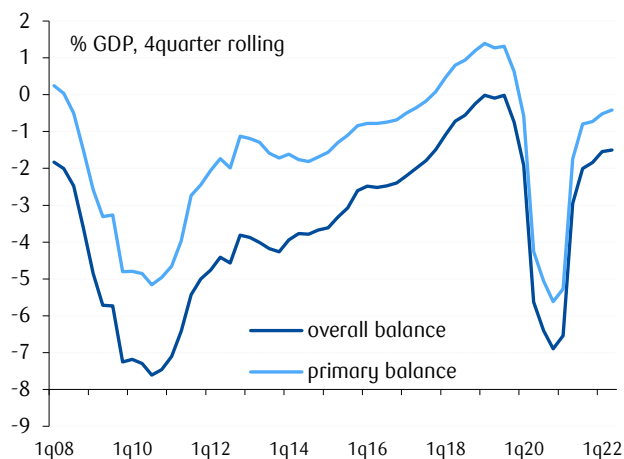
Merchandise trade (in EUR terms)



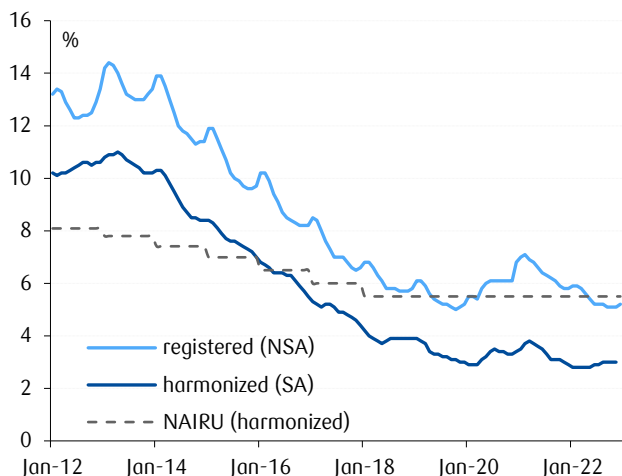
Central government revenues and expenditures*



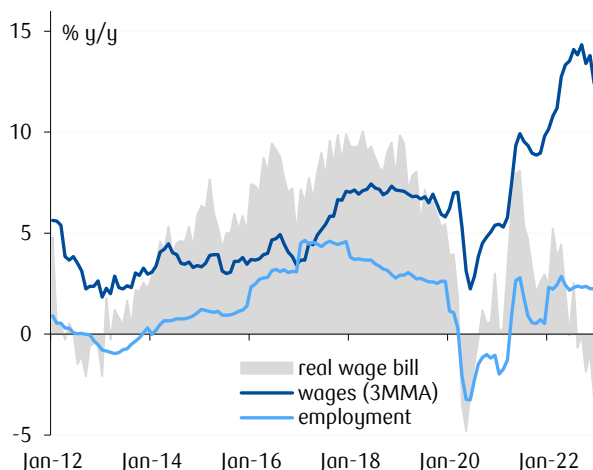
General government balance (ESA2010)



Unemployment rate

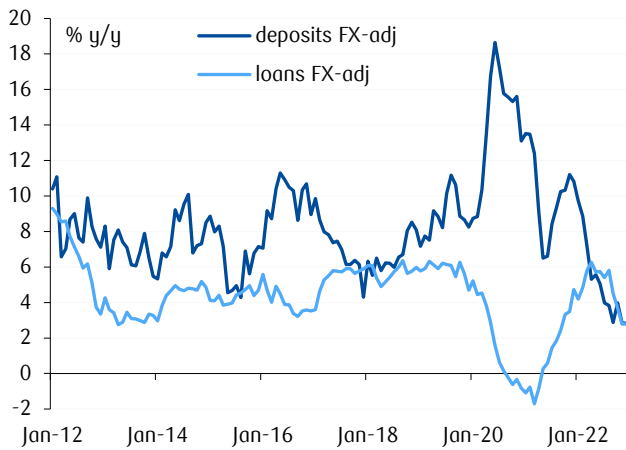


Employment and wages in the enterprise sector

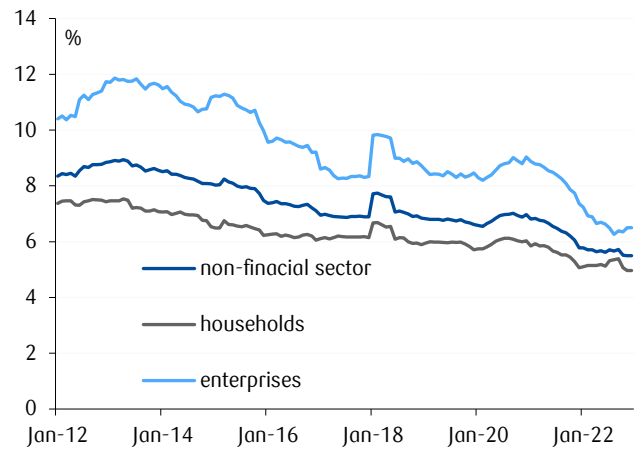


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

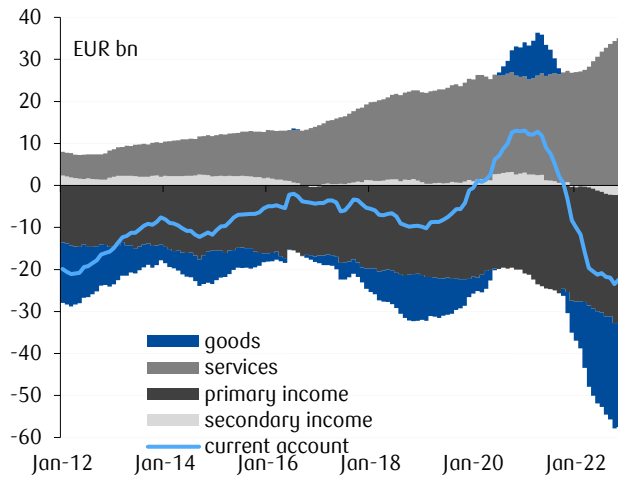
Loans and deposits



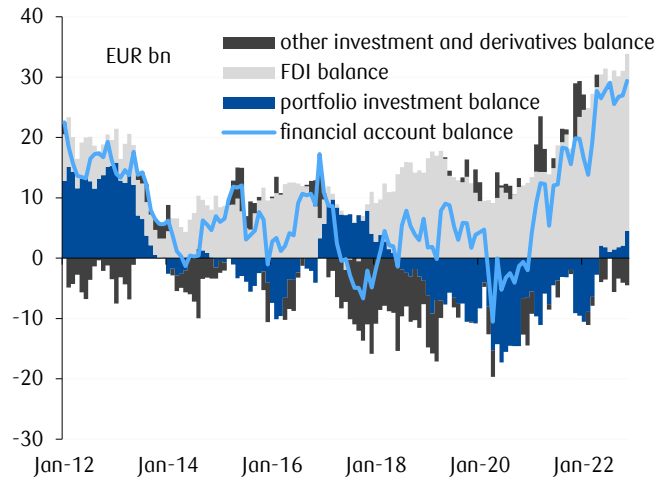
Non-performing loans (NPLs) - by sectors*



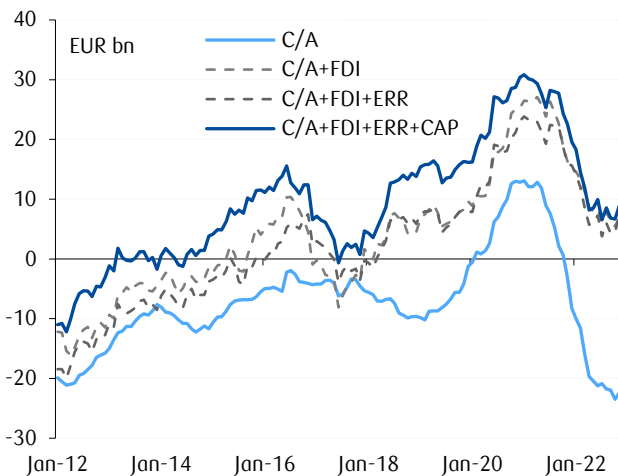
Current account balance



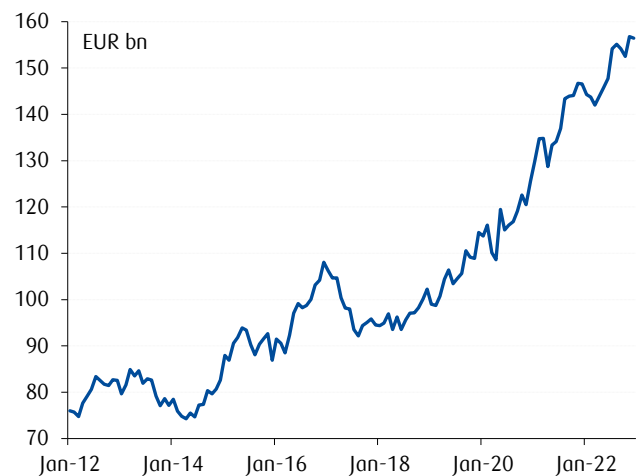
Financial account balance



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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- [All quiet on the monetary policy front](#) (Dec 9, 2022)
- [Disinflation ahead](#) (Dec 2, 2022)
- [Corporate profits shrink](#) (Nov 25, 2022)
- [A soft patch](#) (Nov 18, 2022)
- [Monetary policy dilemmas \(again\)](#) (Nov 4, 2022)
- [Is Poland crisis resilient?](#) (Oct 28, 2022)
- [Not great, not terrible](#) (Oct 21, 2022)
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- [Awaiting the end of rate hikes](#) (Sep 9, 2022)
- [Inflation sparked investments?](#) (Sep 2, 2022)
- [Costs jump, deals slow](#) (Aug 26, 2022)
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- [Inflation seems to be losing steam](#) (Aug 12, 2022)
- [Prepare\(d\) for slowdown](#) (Aug 5, 2022)
- [Unemployment at the bottom and inflation plateau](#) (Jul 29, 2022)
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- [Turning point?](#) (Jul 15, 2022)
- [Inflation vs recession dilemma](#) (Jul 8, 2022)
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- [Dry loan tap has frozen the market](#) (Jun 24, 2022)
- [A bitter pill of interest rate hikes](#) (Jun 10, 2022)
- [Growth borrowed from the future](#) (Jun 3, 2022)
- [Not all gold that glows](#) (May 27, 2022)
- [GDP growth rate at 5%?](#) (May 20, 2022)
- [Less reliant on Germany?](#) (May 13, 2022)

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