13 June 2024 | 7 pages

Poland Economics View

Is the labour market cooling?

OUR TAKE

Despite media reports about rising mass layoffs the labour market seems to be in a good shape. The only weak spot is industry, where competitive pressure from China and strong currency probably play some role. We see signs of wage pressure easing but in our view this seems to be more related to falling inflation expectations than labour market weakness.

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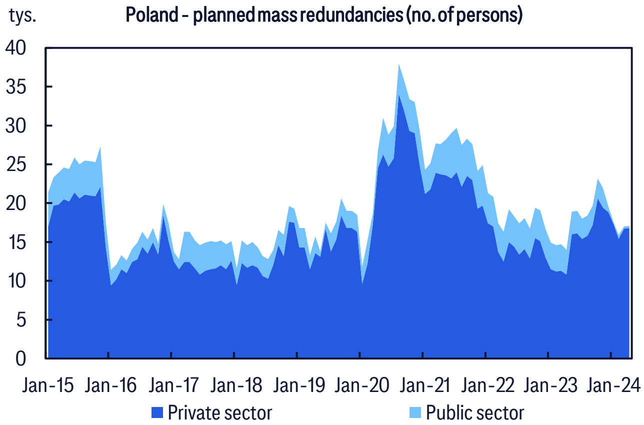
Some cracks have appeared on otherwise very strong labour market, triggering a discussion about possible downturn and its consequences. Between January and April average employment in the enterprise sector dropped by 0.3%, underperforming versus corresponding periods of 2022 and 2023 (+0.6% and -0.1% respectively). The fall was recorded despite signs of a pick-up in overall GDP growth and rebounding private consumption. Also, in recent months Polish media (Interia, 13th Mar) voiced concerns over mass redundancies, frequently announced by large and well-known companies.

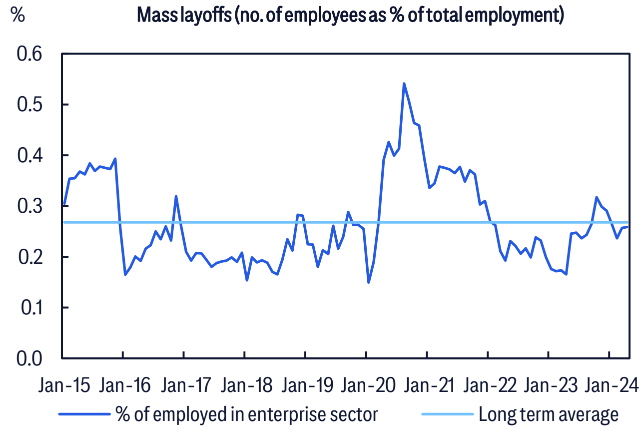
While labour market might indeed have lost some of its vigor, we think these concerns are exaggerated. Despite the media noise, planned mass redundancies do not seem particularly high in historical context. Expressed as a share of the total employment in enterprise sector, the layoffs have remained below 0.3%, which is roughly in line with the long-term average (Figure 2). Also, redundancy plans do not necessarily translate into actual job losses, with actual numbers running at around 50% of plans. Consistent statistics on actual mass layoffs (in contrast to planned ones) are not available for the whole economy, but the partial data suggest that after a spike in late 2023, recent months have actually seen an improvement (Figure 3).

Figure 1. Planned redundancies are not particularly high in historical terms...



Source: Citi Handlowy, Labour Office

Figure 2. ... and seem close to the long-term average

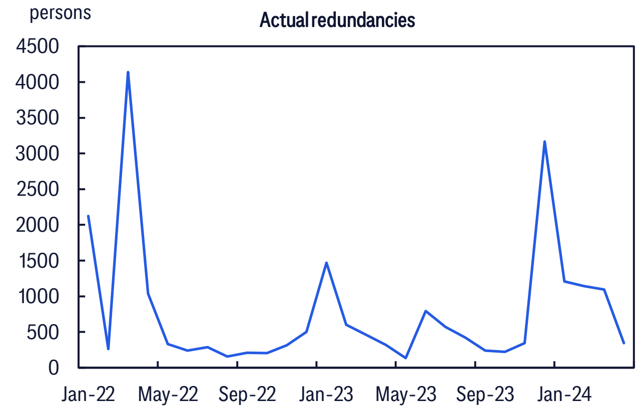


Source: Citi Handlowy, Labour Office

Despite a drop in employment, the jobless rate stays low both in historical terms and in international comparison. Poland has one of the lowest unemployment rates in the EU, outperformed only by Czechia. Also, the jobless rate is currently fluctuating around an all-time lows (~3%) with no sign of a rebound. More importantly, the number of registered unemployed people has been in a downward trend for years (Figure 5) and - if anything - the decline has even slightly accelerated in early 2024. All in all, whatever is happening in the labour market, it has had little or no impact on overall unemployment statistics.

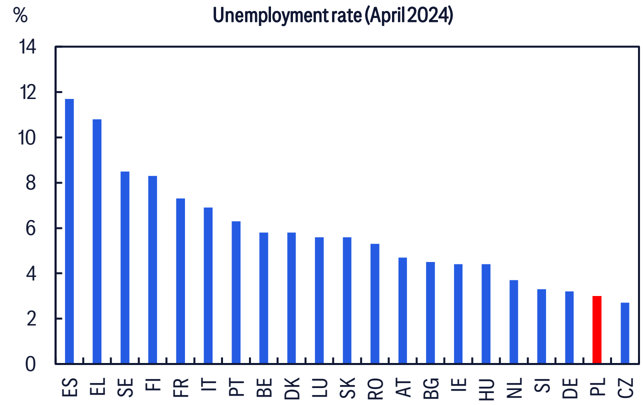
It does not mean there are no weak spots in the labour market. Business confidence surveys show generally positive/neutral trends in every major sector, with an exception of industry, where expectation started to fall after February (Figure 6). The change in employment plans in industry may reflect a combined effect of China's competitive pressure on European manufacturing sector as well as strength of the zloty. In less than two years the zloty strengthened by more than 28% in inflation-adjusted basket terms. The weakness in employment plans in industry combined with strong PLN, underscores our view the Polish authorities are unlikely to seek further zloty appreciation in the coming months (see also Poland Economics View - FX conversion mostly at the NBP).

Figure 3. Actual redundancies are much lower than those officially planned and announced



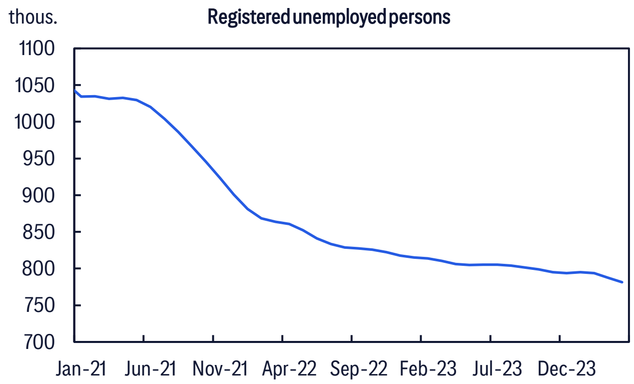
Source: Citi Handlowy, Regional Labour Offices

Figure 4. Low unemployment rate does not suggest any significant deterioration in the labour market



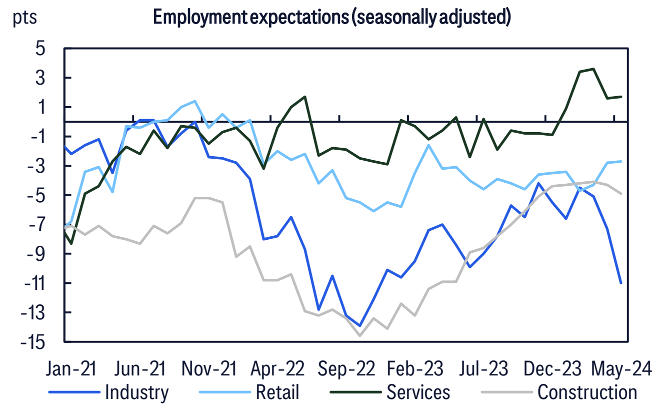
Source: Citi Handlowy, Eurostat

Figure 5. Number of unemployed persons continues to fall



Source: Citi Handlowy, Statistics Poland

Figure 6. Among key sectors, industry seems to be the only weak spot



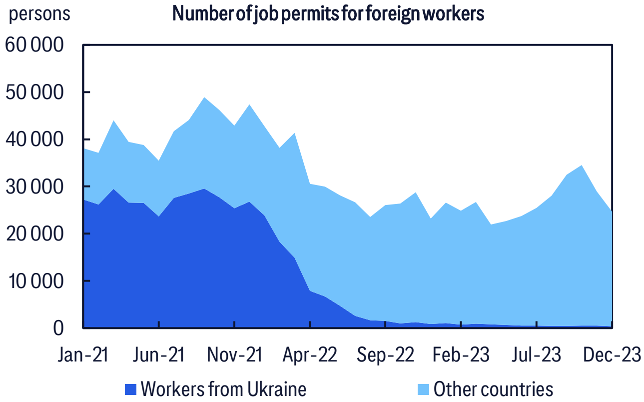
Source: Citi Handlowy, Eurostat, Haver Analytics

It is possible that the decline in employment reflects demographic trends and challenges that companies face while trying to recruit skilled labour. The working-age population has been shrinking at a rapid pace for years with approx. 250 thous. people deducted annually (see Figure 10) and this trend is expected to continue also in the foreseeable future. Taking this into account, we think years with falling employment in Poland may soon become a norm, rather an exception. Falling employment will reflect supply side constraints related to labour shortages, rather than weakness of the labour market.

For years, unfavourable demographic trends in Poland have been at least partially offset by inflow of foreign workers. Initially these were mostly Ukrainian workers, but the inflow of migrants from Ukraine has peaked in 2022 and since then some of refugees decided to move further West, especially to Germany. Consequently, the importance of migrants from other directions increased, with a rising share of both Belarussians as well as workers from Asia. However, the number of job permits for foreign workers peaked in September 2023 (Figure 7) and since then it declined, most likely as consequence of a 'cash for visa scandal' (BBC, 20th Sep 2023). This, in turn can have effects for the labour market.

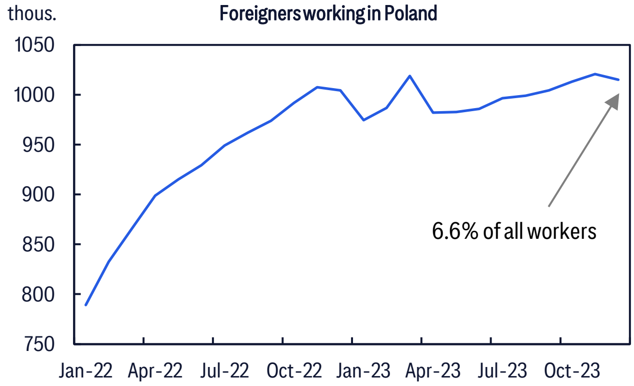
Smaller inflow of foreign workers means that labour shortages caused by population ageing are not filled in on an ongoing basis. This may be one of reasons why employment started to shrink in recent months, even despite otherwise good economic growth performance. Over time, as the economy accelerates, the labour market pressure may become even more visible, unless the inflow of migrant workers resumes at a faster pace.

Figure 7. Number of job permits for foreigners has fallen significantly since September 2023



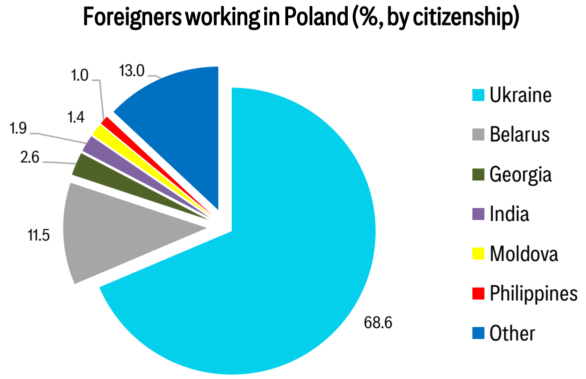
Source: Citi Handlowy

Figure 8. Foreign workers constitute more than 6.5% of the Polish labour market



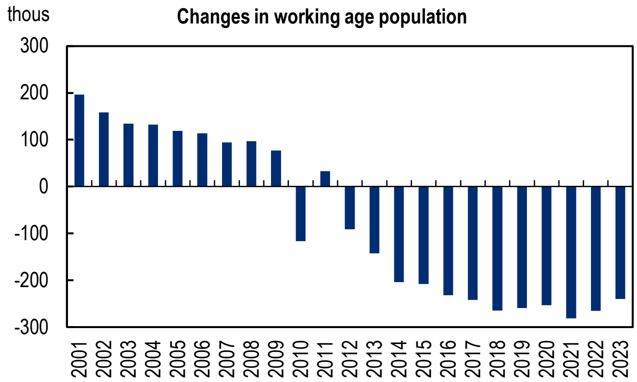
Source: Citi Handlowy, MRPiPS

Figure 9. Biggest number of foreign workers comes from Ukraine but this is gradually changing in favour of other nationalities



Source: Citi Handlowy, Statistics Poland

Figure 10. Inflow of foreign workers seems crucial in light of demographic trends

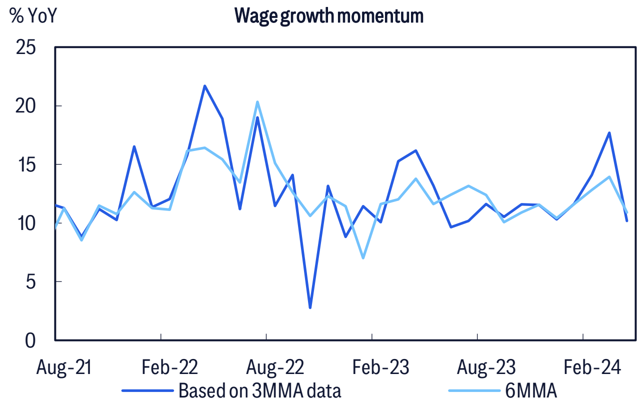


Source: Citi Handlowy, Eurostat

One of key concerns for Polish central bankers in recent months has been the strength of wage growth. Wages have grown at a double-digit pace for more than two years, reflecting the impact of inflation and tight labour market. In January 2024, the additional boost came from ~20% increase in minimum wage and later also from 20-30% increase in public sector wages. An important question is whether these recent shocks are feeding into second round effects or whether they can be treated only as one offs. The answer is not clear-cut, but we think there are some positive signs.

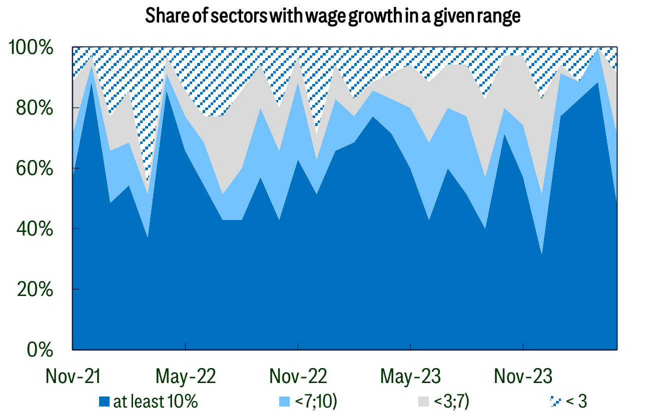
The initial increase in minimum wage was not confined only to January, but it actually spread also to February. In first two months of the year monthly wage increase reached on average 1.5% MoM (seasonally and working day adjusted), which was significantly stronger than average growth in 2023 (0.9%). It seems that, as widely feared, the initial increase in minimum wage had some impact on repricing of wages of employees from higher 'wage brackets'. However, since then wage growth moderated and over last two months it averaged approx. 0.7%, which is below last year's outcome.

Figure 11. The impact of minimum wage increase seems to be fading



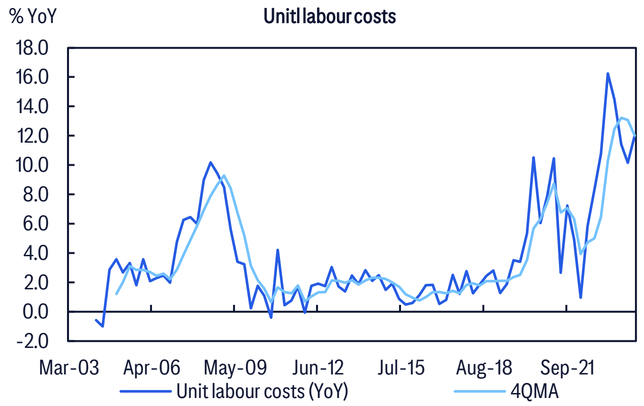
Source: Citi Handlowy Estimates, Statistics Poland

Figure 12. Share of firms raising wages at a double-digit pace has dropped below 50%



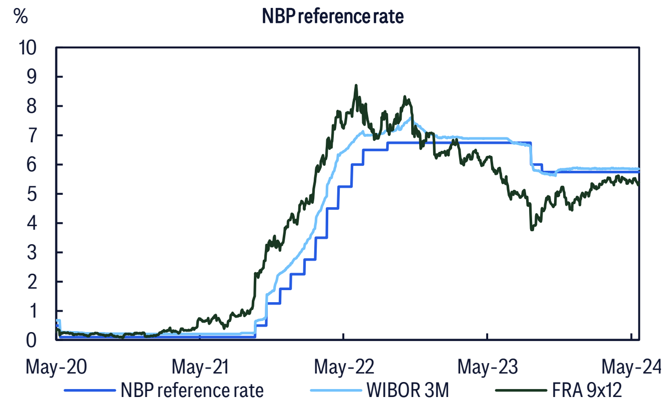
Source: Citi Handlowy Estimates, Statistics Poland

Figure 13. It will take some time before labour costs slow to acceptable levels



Source: Citi Handlowy Estimates, Haver Analytics

Figure 14. Strong wage growth and tight labour market limit the room for rate cuts



Source: Bloomberg, Citi Handlowy

Also looking at wage growth momentum by sectors, it seems that large pay raises have become less prevalent. According to our estimates the share of sectors with double-digit annualized wage increases fell to around 50%. Admittedly, these indicators are not back in a range that would be consistent with price stability. After all, monthly wage growth at 0.7% is consistent with nearly 9% annualized wage increase (still too high), while the fact that half of firms are offering double-digit increases is still well above historical standards. However, we treat the recent slowdown in wage growth as a positive signal suggesting that the initial minimum-wage shock has started to fade and wage growth is slowly normalizing.

In the context of the discussion about layoffs and employment, wage data does not justify pessimistic view of sharply slowing labour market. What we see in data is indeed a moderation of wage growth, but more consistent with an overall drop in inflation expectations rather than significant cooling of labour demand. Indeed, with CPI falling from 18.4% to 2.5% in slightly more than a year, one might have expected an even deeper drop in wage dynamics.

The fact the wage growth slowed only moderately is a testament to the tightness of the Polish labour market.

This has also implications for future wage trajectory. If we are right that lower inflation – lower wage growth feedback loop is at work, further slowdown in wage dynamics is likely later this year. If the trend continues in the coming months, and monthly wage increases shift towards 0.5-0.6% this can become an important piece of news for the central bank. Perhaps it would not be yet the moment to start policy easing, but arguably a good moment to start thinking (and discussing) on when rate cuts should begin.

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