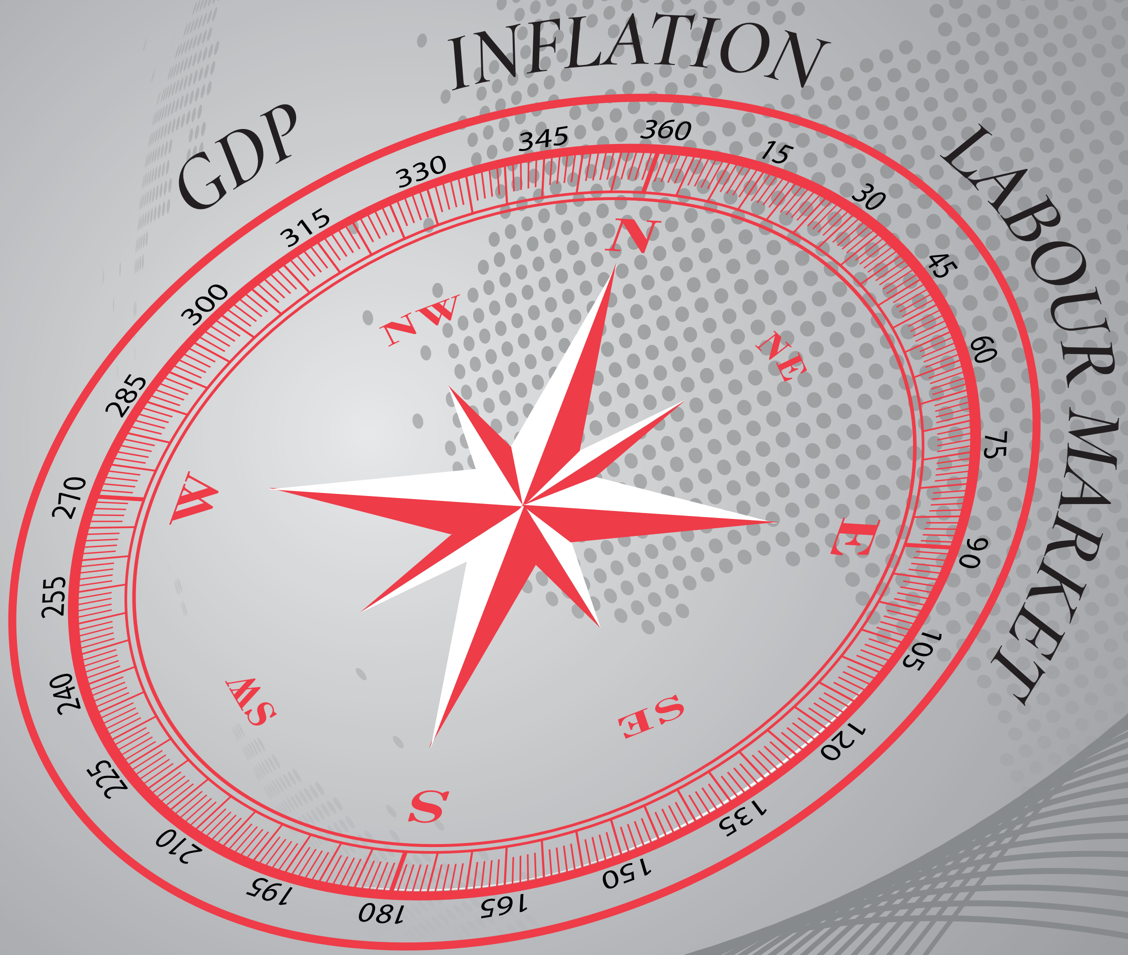
Polish Economic Institute



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Key numbers (forecasts)

0.3%
GDP growth in 2023

2.3%
GDP growth in 2024

11.6%
average CPI inflation in 2023

5.1%
average CPI inflation in 2024

5.2%
unemployment rate at the end of 2023

5.3%
unemployment rate at the end of 2024

12.6%
average wage growth in 2023

10.3%
average wage growth in 2024

Key findings

Over the next two years, economic growth will accelerate. After a meagre growth of 0.3% in 2023, the Polish economy is expected to grow by 2.3% in 2024 and 3.5% in 2025. The main driver of growth will be household consumption, however, the coming year will bring minor perturbations in investments. The latter will recover rapidly in 2025 – alongside an improved economy globally, growth will also be supported by programmes from the National Recovery Plan.

Extended anti-inflation shield will lower inflation. The average price increase in 2023 will be 11.6% – this is less than we assumed in July. The slower pace of price increases is evident in the wide range of products and services that make up so-called core inflation. Food prices are also growing more slowly. The next few months will mainly bring changes related to administrative measures. Maintaining zero VAT on food and frozen energy prices in H1 allows us to assume that inflation in 2024 will reach 5.1%.

The situation on the labour market is stable. We estimate that the unemployment rate will have risen to 5.2% by the end of the year, which is quite a good result. We anticipate a slight increase in the number of unemployed in H1 2024, yet the unemployment rate will only change slightly

The pace of wage growth will slow down. We expect wages to increase by an average of 12.6% in 2023, yet in Q4 the growth rate will be close to 11.5%. Next year, wages may still rise by double digits (10.3%), mainly due to increases in the minimum wage.

1. The Polish economy in Q4 2023

The Polish economy is rebounding from the bottom of the slowdown. GDP grew by 0.5% in Q3, an improvement in performance after declines in the first half of the year. The main driver of growth was investment, which increased by 7.2% y/y. This was mainly due to large companies – their expenditures increased by 11.5% y/y. At the same time, we observe an increase in consumption – it was 0.8% higher than last year. In October, there was the first increase in retail sales since February – the results were 2.8% better than a year ago.

Declines in inflation are starting to slow down. CPI peaked at 18.6% in February and has since fallen to 6.5% in November. This is the result of slower growth in energy and fuel prices. The increase in food prices also slowed down from 20.7% in February to 6.5% in November. Core inflation declined at a less spectacular rate. It declined from 12.3% in March to around 7.6% in November.

The rate of wage growth remains high. The Q2 data show that wages in the corporate sector are still growing at a rate close to 12%. While the October results were lifted by the mining awards, wage pressure is still evident in the service industries. Therefore, the next few months will bring a slight deceleration, but results should still be in double digits. One significant change for the labour market will be the increase in the minimum wage – in 2024 it will be more than 20% higher than in 2023.

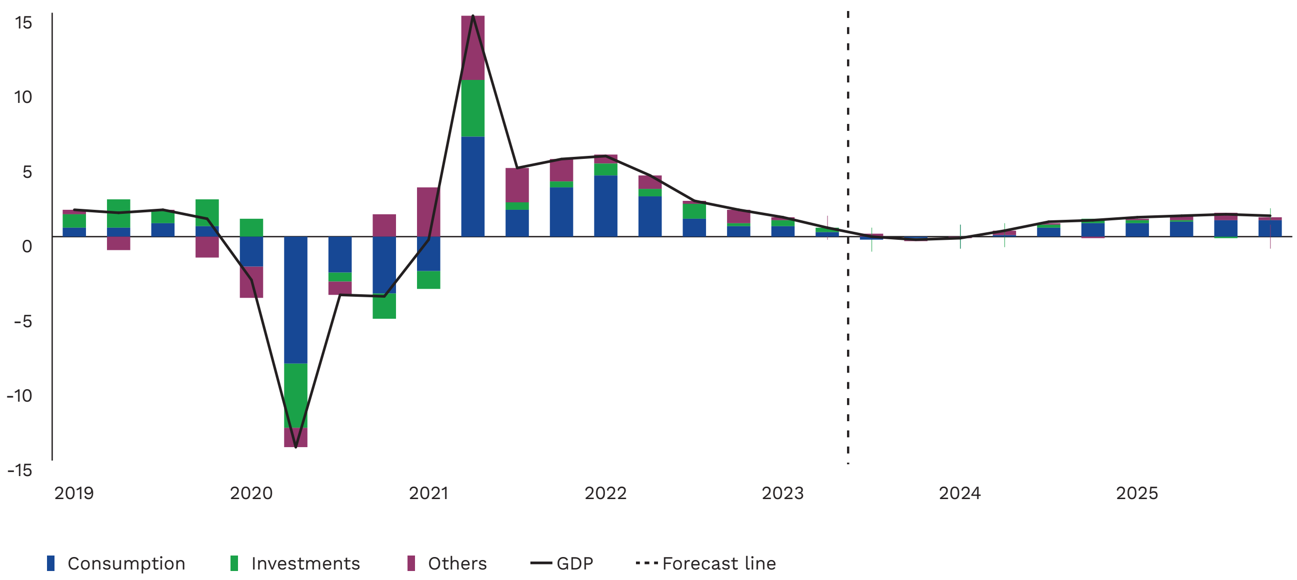
2. The global economy in 2023-2025

2.1. The European Union

The European Union avoided a recession in 2023, but GDP growth will be weaker than earlier expectations. The European Commission (EC) estimates that economic growth will slow down from 3.4 to 0.6% in 2023. GDP will fall in 10 of the 27 countries of the community. Germany, the EU's largest economy, will shrink by 0.3%. In the remaining countries, GDP growth will be modest – below the results of previous years. Of the large economies, Spain and France will perform best, with GDP growth of 2.4% and 1.0%, respectively.

EU GDP will rebound in 2024, yet growth will be weak. The EC forecasts that the EU's GDP will grow by 1.3% in 2024. The only economy to fall into recession will be Sweden, with a fall in GDP of 0.2%, due to problems in the local property market. However, the Commission's forecasts are relatively optimistic – the market consensus today is for growth of no more than 0.9% y/y.

Chart 1. Structure of GDP growth in the eurozone in 2019-2025 (in % y/y)



Source: prepared by PEI.

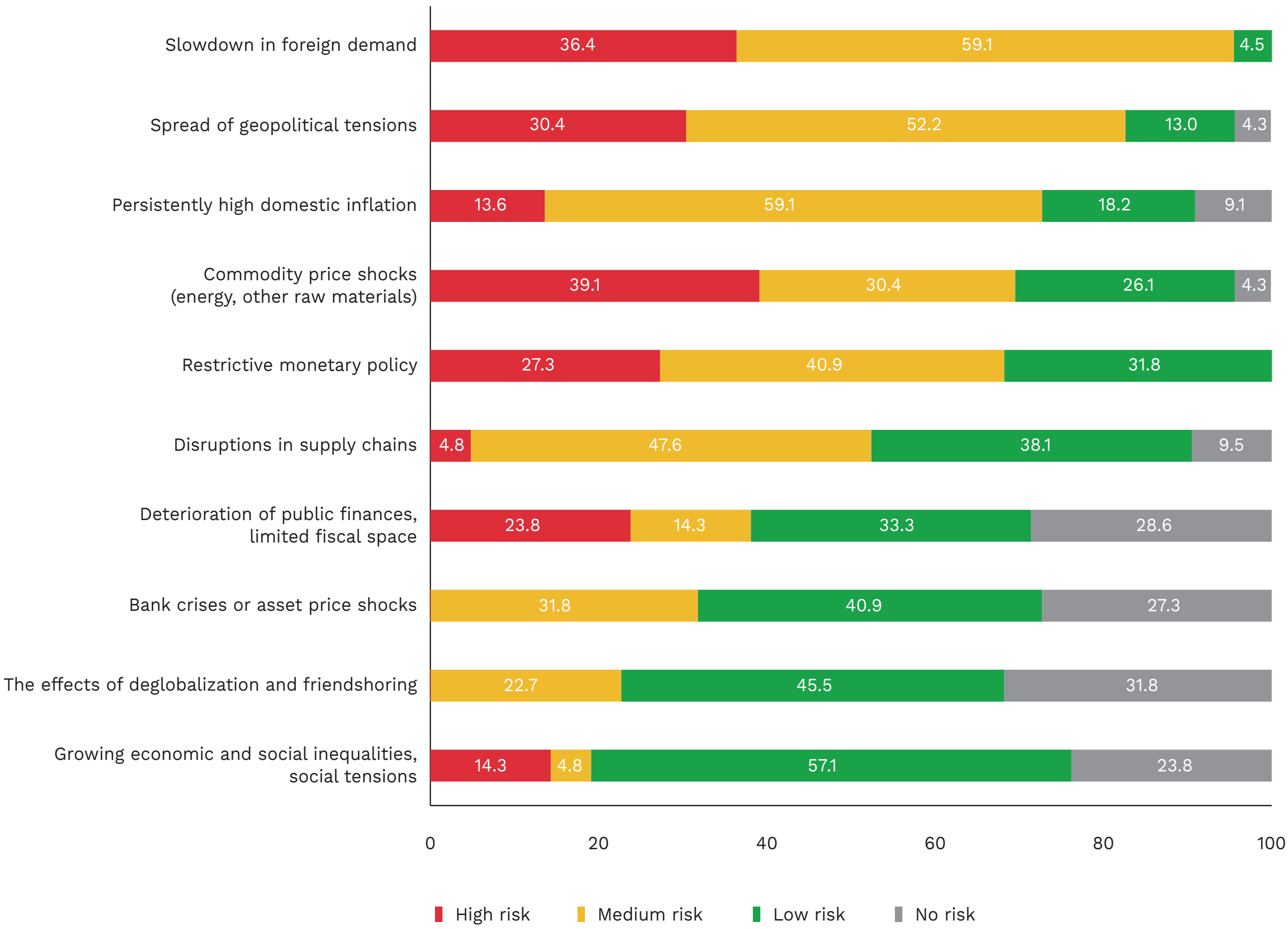
2.1.1. Structure of economic growth in the Eurozone

The economic rebound will be driven by consumer spending. The rate of consumption growth will increase from 0.3 to 0.8% in 2024. The fall in inflation means that the purchasing power of wages will increase, and shield spending and savings accumulated during COVID-19 are also of help. In some of the southern European countries we can observe an improvement in employment as well, so the trend will intensify in 2025 – consumption will then grow by 2% y/y.

Against this background, capital expenditure will remain modest. Between 2023 and 2025, we expect annual increases in the range of 0.3-0.6%. The key impetus will be provided by funds from the European recovery plans. Restrictive monetary policy will limit business investment. The European Central Bank has raised the main rate to 4.5%.

In particular, investment in Germany is under threat following a decision by the Federal Constitutional Court. It ruled that it was unconstitutional to transfer €60 billion of unused funds from debt incurred to combat the COVID-19 pandemic to the Climate and Transformation Fund (KTF). The ruling will force a reduction in fiscal spending particularly in areas related to climate and environmental transformation. The ruling may significantly reduce investment next year, which in turn will impinge on the weaker economic performance of the EU's largest economy.

Chart 2. Which of the following factors most threaten economic growth forecasts in 2024? – AIECE member survey



Source: prepared by PEI on the basis of AIECE data

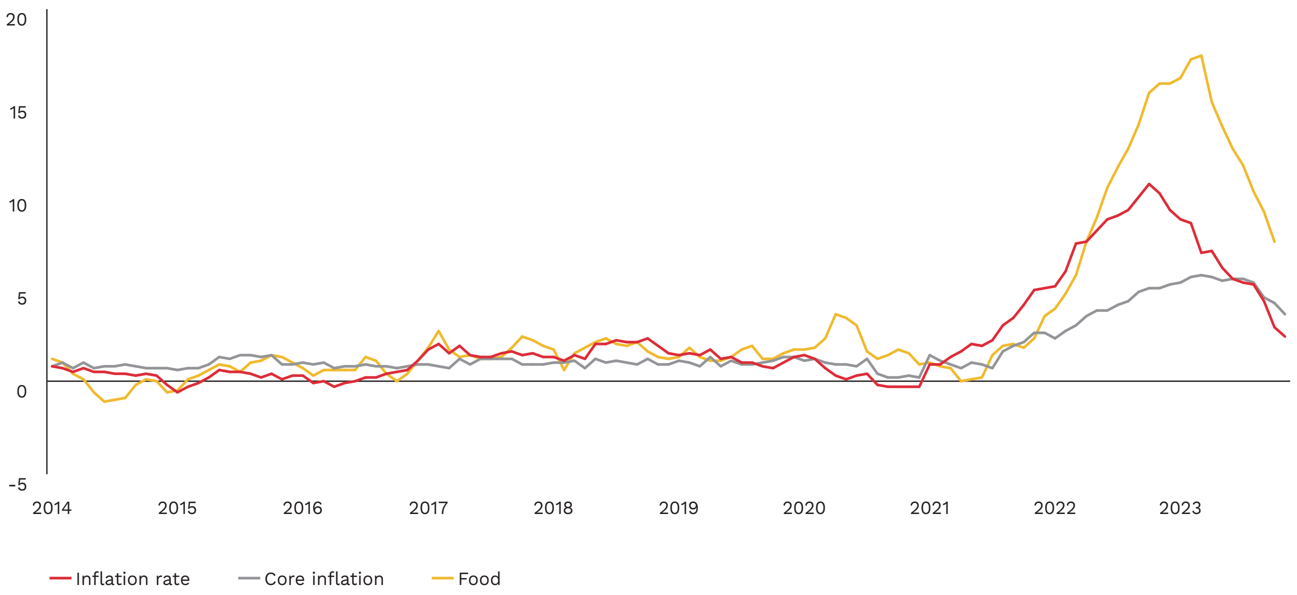
Furthermore, foreign demand will provide a little support. European economies continue to struggle with the collapse of energy-intensive industries. The activity of the chemical industry or the manufacture of basic metal products in Germany declined by more than 10% last year. The major European economies also have an increasing problem exporting machinery or cars to the US and Chinese markets – due to competition in electromobility. Therefore, analysts surveyed by Focus Economics indicate that industry in the Eurozone will remain stagnant in 2024, following a decline of 2% in 2023. As a result, export growth will also be modest.

In 2024, the dominant risks will come from outside. AIECE network member institutes indicate that weak foreign demand and geopolitical tensions are the main threats. In 2022, institutes mostly indicated problems related to the supply. Now, only half of them consider disruption in supply chains as a high or medium risk factor.

2.1.2. Inflation in the Eurozone

EU countries are in the phase of disinflation. HICP inflation in the Eurozone declined from a peak of 10.6% in October 2022 to 2.4% in November 2023. This is due to, among other things, the expiry of last year's energy shocks – energy prices in November were 11.5% lower than last year. Food prices are also growing more slowly – they rose by 7.5% y/y in October. Core inflation eased to 3.6% y/y. The pace of price increases varies strongly between EU countries. In the CEE countries, prices are continuing to rise at a rate of 4-5%, while in Western European countries inflation is now converging towards the ECB's target.

Chart 3. Inflation in the Eurozone (%, y/y)

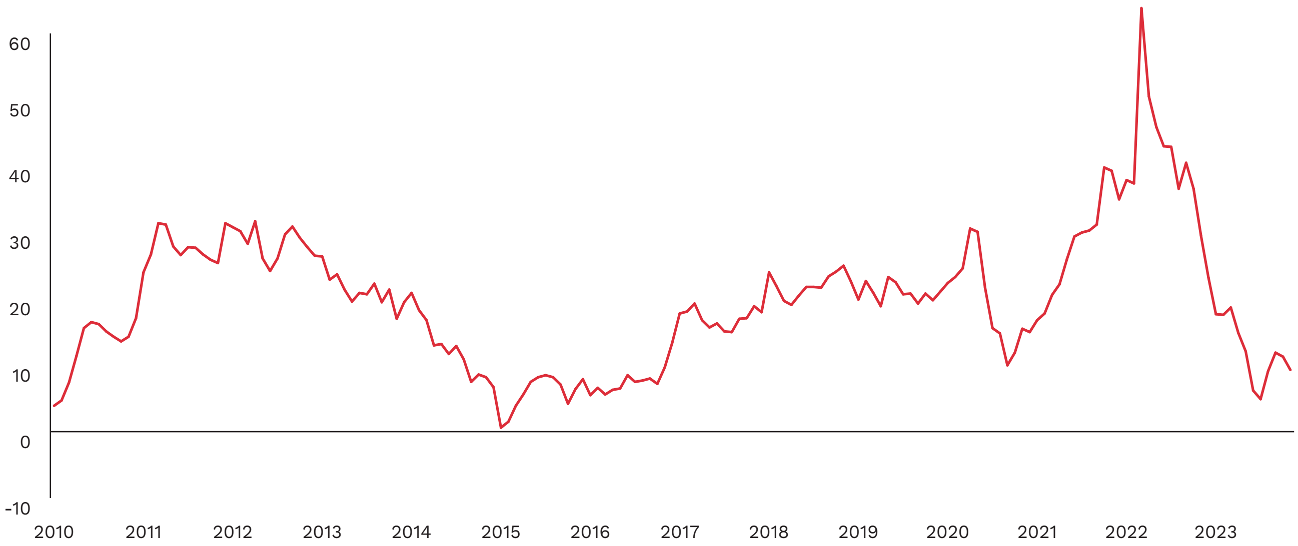


Source: prepared by PEI on the basis of Eurostat data.

Eurozone inflation is forecast to exceed the European Central Bank's (ECB) target in 2023 and 2024. Economists surveyed by Focus Economics expect inflation to average around 5.6% in 2023 and around 2.8% in 2024. The forecasts in the ECB survey are also similar. Analysts indicate that most of the change will be driven by the prices of services. Food prices will grow at a moderate pace of around 3% y/y. Energy prices will provide a contribution of 0.5 pp, mainly due to statistical effects related to the phasing out of household support.

In recent months, expectations in terms of inflation have risen somewhat. European Commission surveys (ESI) indicate an apparent decline in inflation expectations by Q2. Recent months indicate that consumers believe inflation will fall a little more slowly. The variation between countries is clear, with consumers in inflationary countries such as Slovenia (40.9 points), Estonia (30.2) and Hungary (25.9) being the most pessimistic.

Chart 4. Consumer inflation expectations (% y/y)



Source: prepared by PEI based on data from the European Commission.

2.2. The United States

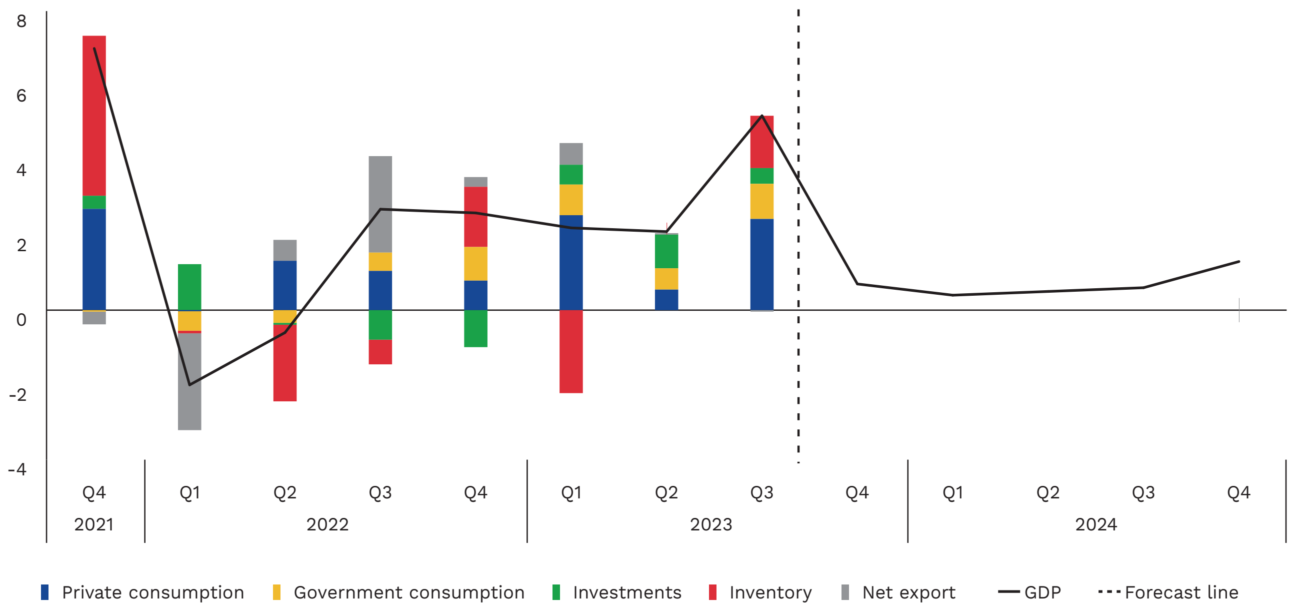
2.2.1. Economic growth in the USA

US economic growth accelerated in the first three quarters. In Q3, US GDP grew by 5.2% q/q on an annualised basis (SAAR). The Bureau of Economic Analysis commentary points to an increase in private investment (+10.5%) and government consumption (+5.5%). As real wages rose, household consumption also increased. The way the US statistics are compiled exaggerates the changes with large fluctuations – the Q3 result corresponds to a growth rate of 3% y/y when converted to the data representations used in Europe.

Q4 performance will be noticeably weaker. The Atlanta Fed GDP Now model indicates a result of around 1.2% q/q SAAR. This is a consequence of reduced inventories and low investment activity, whether from the government, consumers or businesses. Under these conditions, the annual rate will decline from 3.0 to 2.3% y/y. In total, the US economy will have grown by 2.2% over the year, i.e. several times faster than in the EU countries.

Next year, we expect weaker economic activity in the US. The FOMC forecasts GDP growth in 2024 at 1.5% y/y, yet the commercial analysts are even more pessimistic (1.1%). The US will be hit by the effects of high interest rates and will cause consumer demand to weaken. Analysts surveyed by Focus Economics forecast a slowdown in consumption growth from 2.2 to 1.2% in 2024. The slowdown will be visible despite rising disposable incomes (+3% y/y).

Chart 5. US economic growth (% q/q SAAR)



Source: prepared by PEI based on: Bureau of Economic Analysis; forecasts: Focus Economics.

There are ongoing concerns about the onset of a recession. The Wall Street Journal indicates that the probability that the US economy will be in recession in 2024 is as high as 65%, while Bloomberg puts it at 50%. However, it should be noted that similar theses have been made for about a year – so far without success.

2.2.2. Inflation

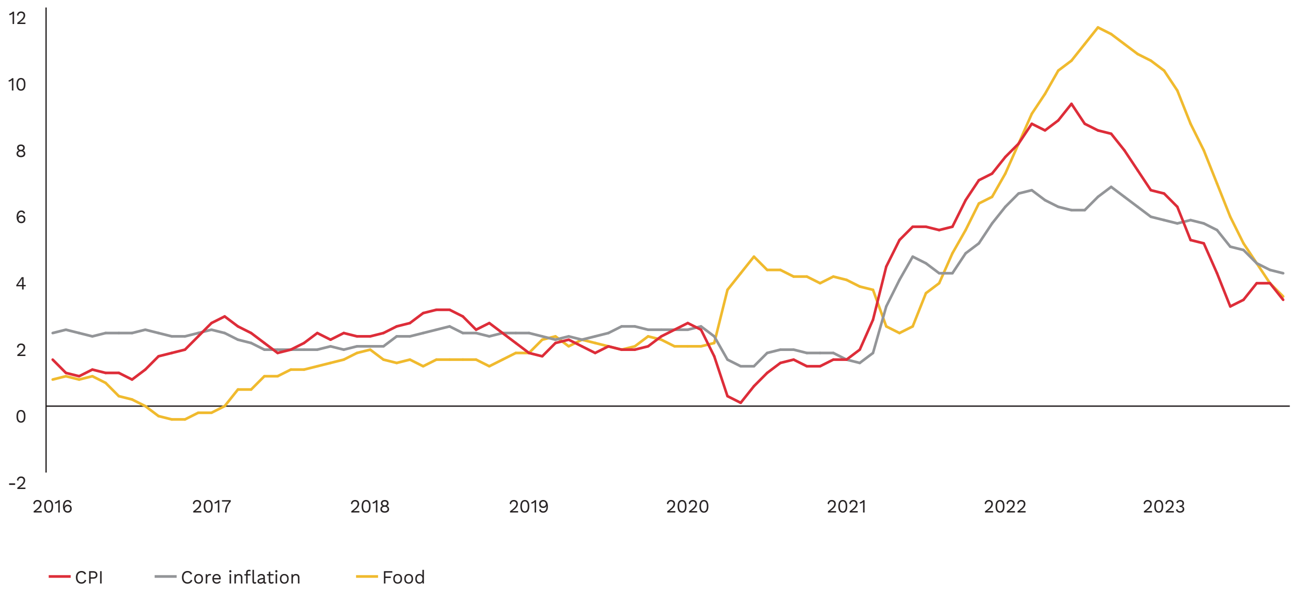
Inflation has slowed significantly. In June 2022, CPI inflation rose to 9.1%, thus reaching a 40-year high. Since then, the rate of price increases has slowed to 3.2% in October 2023. This was particularly influenced by the stabilisation of industrial goods prices. The highest growth rate, i.e. 12.4%, was in February 2022. We are now witnessing no change, i.e. an increase of 0% y/y in October 2023. Overall, throughout the year 2023, average inflation will fall from 8% to 4.1%.

The rate of price growth will exceed the inflation target in 2024. Economists surveyed by Focus Economics predict that inflation will average 2.7%. It will decline steadily from 3.1% in Q1 to 2.4% in Q4. The main concern remains the health of core inflation. Most of the Fed's measures of changes in the inflation trend still point to price increases of 3.5-4%. The University of Michigan's consumer expectations surveys also depict similar trends.

Along with the decline in inflation, the Federal Reserve is ending its monetary tightening cycle. The Fed's rates are currently within a range of 5.25% to 5.50%. Market analysts are predicting that interest rates will stabilise for a longer period next year. They are unanimously pointing to a total of 100 basis points of rate cuts – 50 each in Q3 and Q4 2024. Fed members' forecasts as of September were much more conservative and suggested cuts of only 50 basis points.

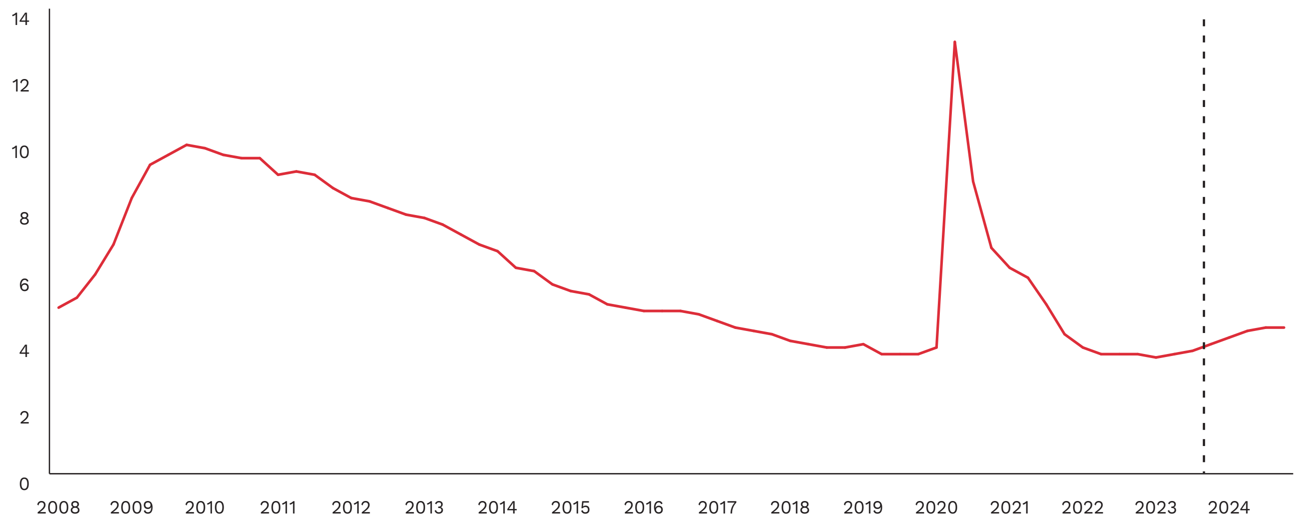
The Fed's actions will be more strongly linked to the health of the labour market than inflation. Monthly employment gains are beginning to falter, with 199,000 jobs created in November, compared with a 12-month average of around 240,000. The results were lifted somewhat by the return to work of those on strike in the auto (UAW) and entertainment (Hollywood) sectors. At the same time, surveys suggest an increase in unemployment, mainly due to layoffs in temporary employment. A more conservative measure covering only permanent contracts (the so-called U-6) is stable. Companies that struggled to recruit and retain staff after the pandemic may avoid laying people off. Nevertheless, Focus Economics' forecasts point to an increase in unemployment in 2024 from 3.7 to around 4.3%. Possible negative surprises could accelerate the pace of monetary easing.

Chart 6. Inflation in the United States (% y/y)



Source: prepared by PEI on the basis of AIECE data

Chart 7. Unemployment rate in the USA (%)



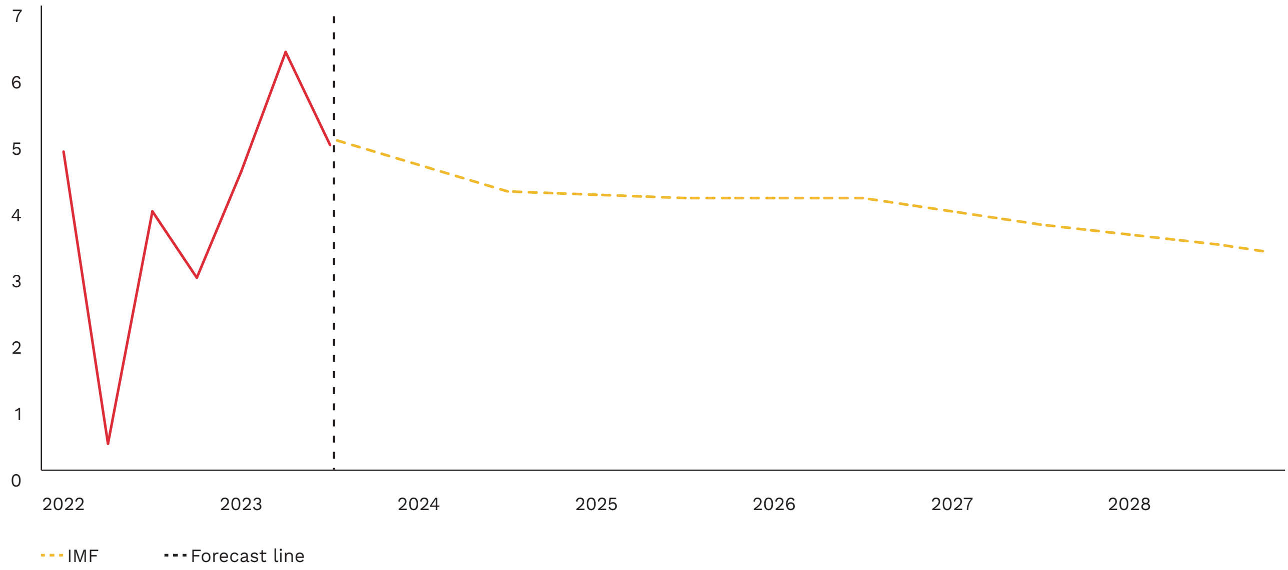
Source: prepared by PEI based on FRED data; forecast by Focus Economics.

2.3. China

Following a strong performance in Q3, **China is likely to meet its target of 5% GDP growth this year.** This is mainly due to consumer spending – retail sales growth has accelerated since the bottom in July – from 2.5 to 7.5%, respectively. Industrial production is also growing today at a pace in line with the target, i.e. approx. 4.6% In contrast to previous episodes of slowdown, fixed asset investment continues to decline. Since the beginning of the year, the growth rate has slowed from 5.5% y/y in January to 2.9% in October.

Further predictions for the Middle Kingdom are even worse. Growth is likely to slow down to around 4.5% in 2024 and 2025, slowing the expansion of China's share of the global economy. Estimates remain in the range of 3.5-4.5%. Growth continues to be driven by investment in cutting-edge technology, such as quantum computers or AI, and expenditure on education. The International Monetary Fund points to structural problems, e.g. an ageing population and weakening productivity.

Chart 8. China's Economic Growth (% y/y)



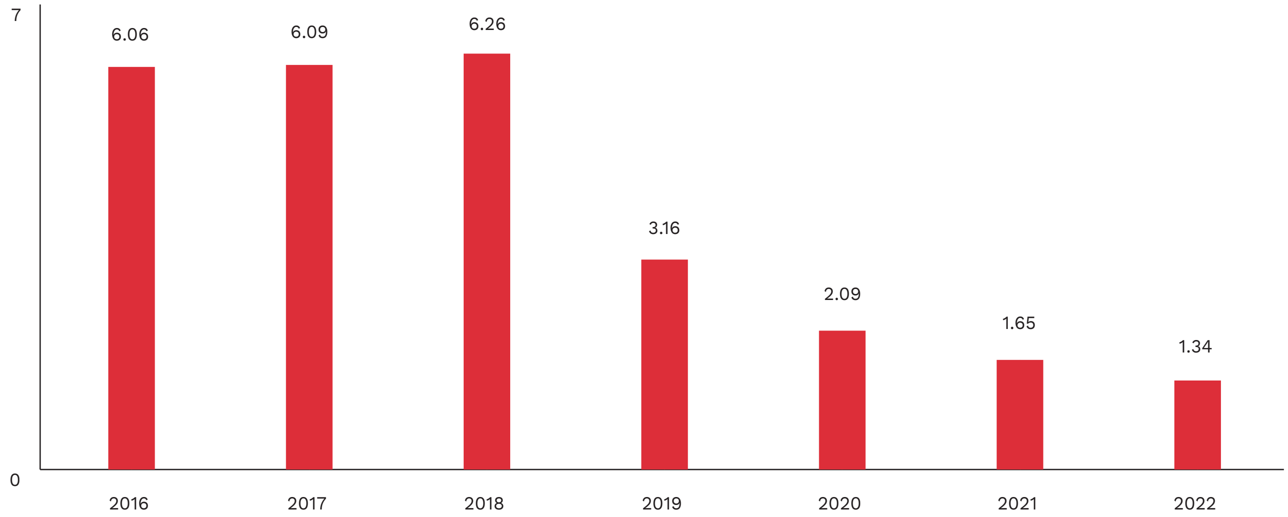
Source: prepared by PEI on the basis of Macrobond and IMF data.

Credit rating agencies downgrade China's credibility. Moody's reduced the rating from A to A-. The agency additionally assigned a negative rating outlook due to declining GDP growth, fiscal risks related to the situation of local governments and a continuing significant problem with the housing market. China's regional government debt reached 76% of GDP in 2022. Since the outset of the pandemic, it has increased by more than 10 pp (62.2% of GDP in 2019).

Additionally, the financial problems of Evergrande, and now other leading developers, have started a decline in housing prices. The reduction in sales affects the performance of the construction as well as real estate service industries, which generate 24% of GDP in China .

The risk of another downgrade is still significant. So far, the ratings of around 33% of countries with a negative outlook have fallen to a lower level over a period of one and a half years.

Chart 9. Commercial properties under construction in China (in million m²)



Source: prepared by PEI based on data from the Ministry of Housing and Urban-Rural Development of China and Macrobond.

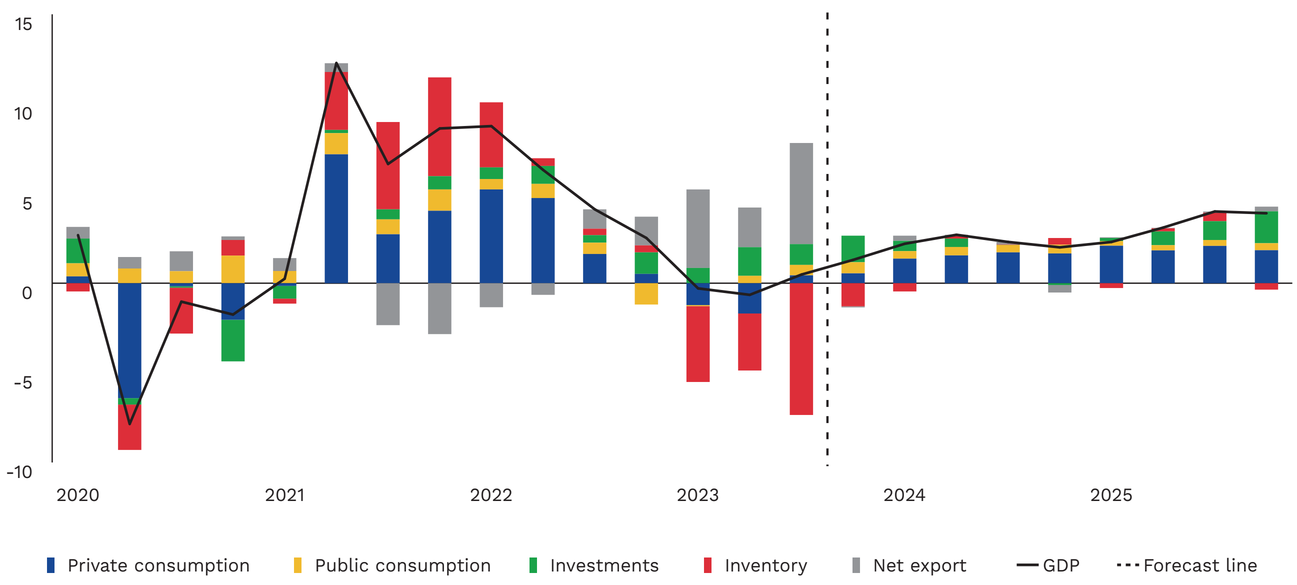
3. The Polish economy in 2023-2025

3.1. Economic activity – GDP

The Polish economy is back on track for growth. GDP in Q3 grew by 0.5% y/y. This is the first positive result after a six-month decline. In H1, the Polish economy averaged 0.5% less than a year ago. The bottom of the slowdown is behind us and we expect the rebound to continue. Q4 is likely to bring a result close to 1.3%. Overall, economic growth will reach 0.3% for 2023 as a whole.

In 2024, economic growth should remain close to 2.3%. Thus, we have slightly raised our forecasts compared to the July report. It should be noted, however, that against the background of the Polish economy's performance to date, such achievements are still modest. We can only expect faster growth in 2025, when Poland's economy is likely to have expanded by 3.5%, thanks to funds from the National Recovery Plan, among other things.

Chart 10. GDP growth structure – PIE forecast (% y/y)



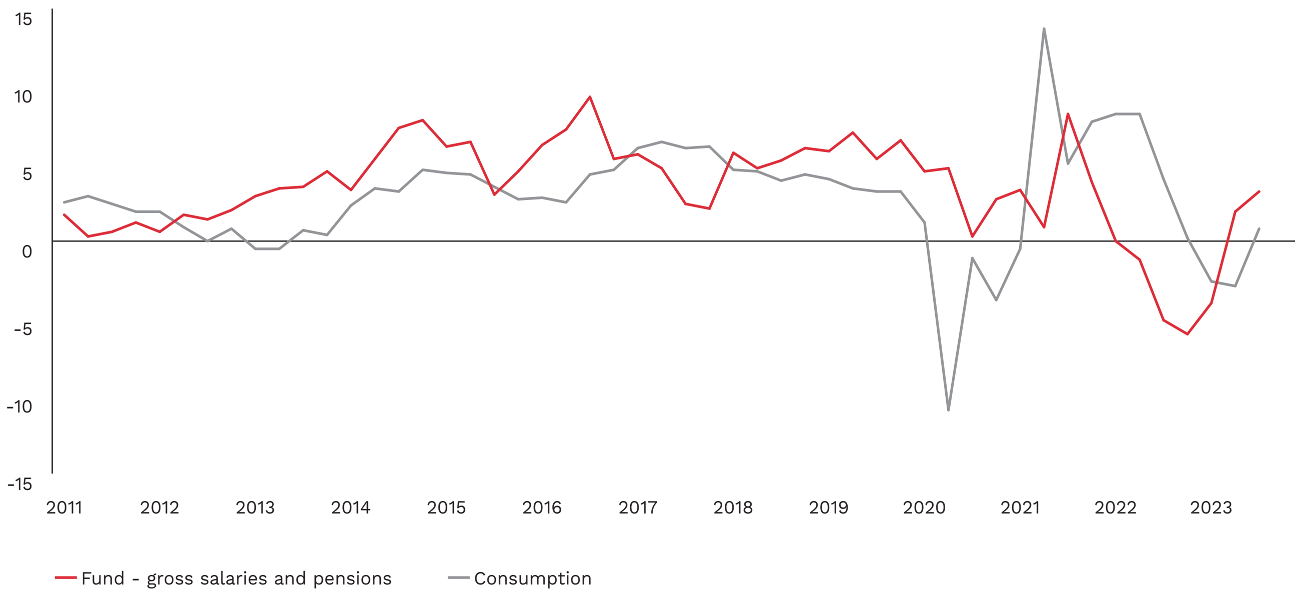
Source: prepared by PEI.

3.1.1. Consumption

The rebound is mainly related to household consumer spending. In H1 2023, they were on average 2.4% lower than in the corresponding period of 2022. Several factors contributed to this: inflation triggered a decline in the purchasing power of wages, interest rate rises led to a situation where a greater proportion of income needed to be spent on servicing mortgages. In Q3, the situation began to return to normal – consumption increased by 0.8% y/y. We see more frequent purchases of durable goods, including higher turnover in the sale of cars, electronics and household appliances.

In 2024, consumption will accelerate even more – here we expect results close to 2.8%. The wage growth rate will steadily outpace inflation next year – in Q1, the growth rate of the wage fund and transfers will be more than 5 pp higher than the CPI. In addition to market-typical changes, the revaluation of the 500+ programme and high increases in the minimum wage will also provide support. This will give a decisive boost to purchases. Also, sentiment analysis points to a recovery in sentiment.

Chart 11. Consumption growth structure (% y/y)



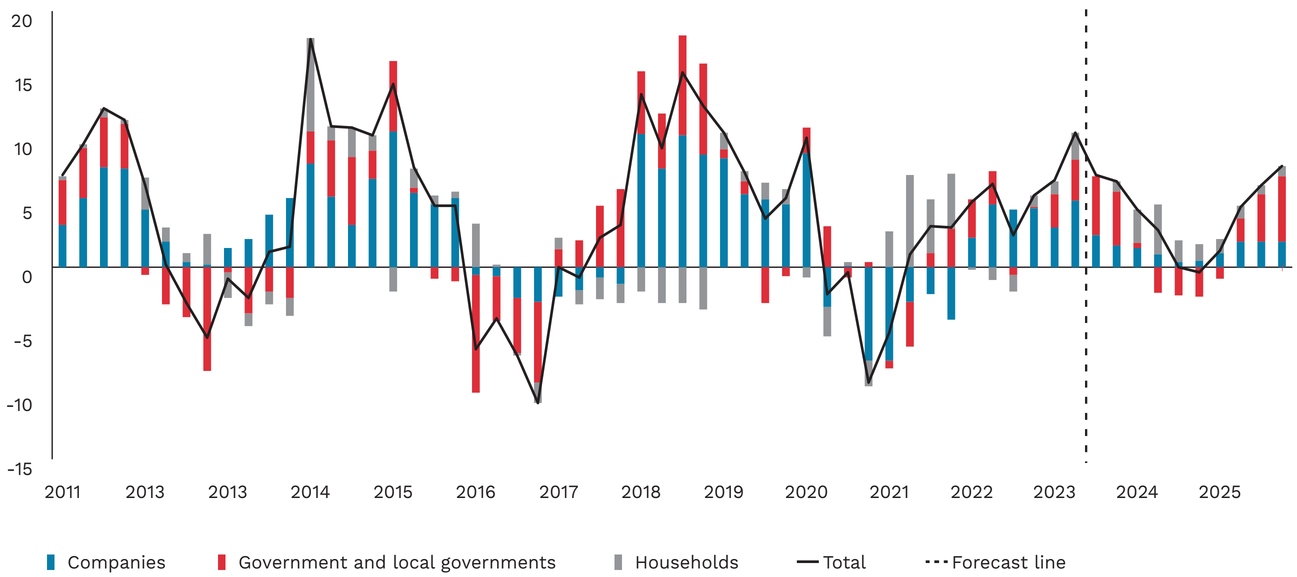
Source: prepared by PEI on the basis of Central Statistical Office data.

3.1.2. Investments

The end of 2023 will also bring strong investment growth. In Q3, the growth rate continued to reach 7.2% y/y. This was thanks to high outlays from non-financial enterprises, local government units and the state budget. Based on the available data, we estimate that the increase in public outlays lifted the investment growth rate by 4.5 pp. This is likely to continue in Q4 as well, which is why we expect the total growth rate to oscillate close to 6.7%. Throughout 2023, it will reach 7.6%.

Investment, however, will slow down significantly in 2024. We expect a decline from 6.7% to 1.2%, with the first half of the year being reasonably strong. The slowdown in Europe will contribute to lower growth in business outlays, both for larger companies and SMEs. The real growth rate of non-financial companies' outlays will be close to zero for most of the year. In addition, a decline in the volume of investment by local governments is quite probable – this will be related to the downturn caused by the change in the EU budget outlook for cohesion funds.

Chart 12. Investment growth structure – PEI forecast (% y/y)



Note: nominal outlays are realised by a single price index – the total investment deflator.
Source: prepared by PEI on the basis of Central Statistical Office data.

Any support from the National Recovery Plan is more likely to be visible in 2025. We maintain our estimate that the implementation of the projects within the plan will add 2.0-2.5% to GDP in the long term. Some of the activities are currently being implemented with PFR pre-financing – they account for about 0.6 pp. However, the implementation of the remainder will face the standard challenges observed in the implementation of EU projects – the largest expenditures usually occur several months after the start of the initiative.

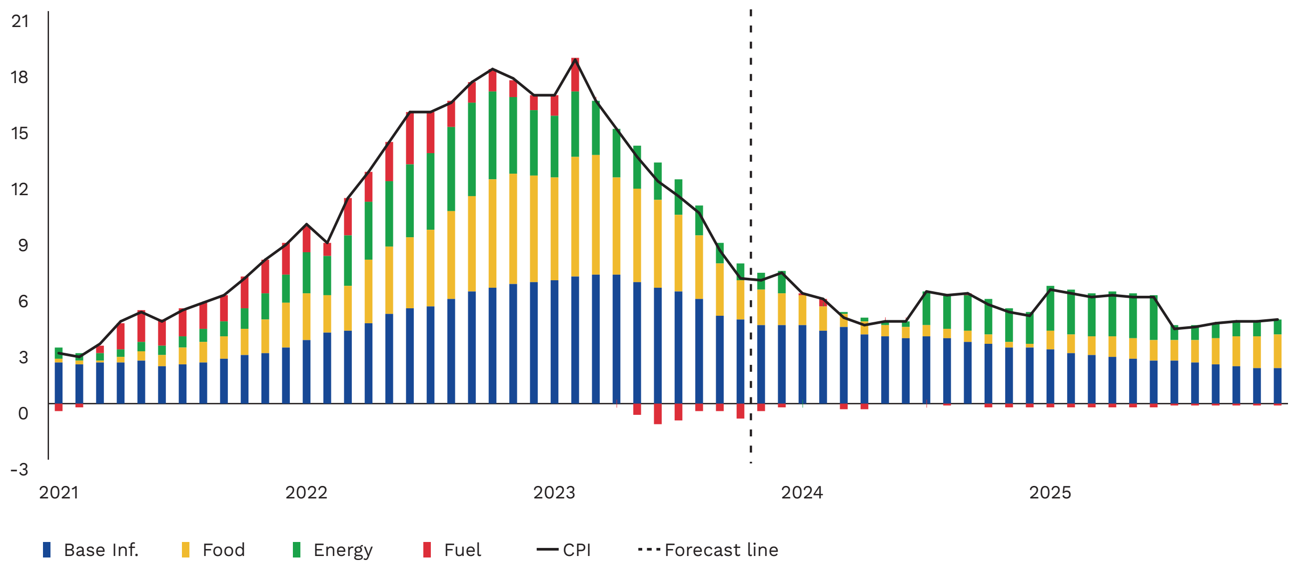
3.1.3. Other GDP components

Net exports should have little impact on Poland's GDP. Q3 data continue to show an incredible surplus of 5.6 pp. At the same time, it is accompanied by a disproportionate decline in inventories of 7.4 pp. These results are likely to level off more with further data coming in to the Central Statistical Office. We have seen similar problems in 2022, we reported in PEI's Economic Weekly. We continue to believe that in 2024 the impact of the balance on growth will be neutral. It is likely that growth in industrial production and exports will be modest. At the same time, rising consumption will boost imports. With this combination of forces, the balance performance will deteriorate, but given the large surpluses in 2023, performance will remain in balance.

3.2. Inflation

The downward trend in inflation will slow down in 2024. This past March we saw a significant slowdown in price growth, with the CPI falling from 18.6% in February to 6.5% in November. This trend will continue into 2024, although no longer so sharply. We forecast that inflation will average 5.1% in 2024, which is a slight change compared to the current performance. The problem will be the stickiness of core inflation and the increases in energy prices in H2. Against this backdrop, food prices will rise slightly, while fuel prices will fall.

Chart 13. CPI inflation structure (% y/y) – forecast by PEI



Source: prepared by PEI.

Inflation will remain above the NBP's target in 2025 too. We expect a high growth in service prices and core inflation. Energy prices will also make a significant contribution as a result of the restoration of market prices after the energy shock. Furthermore, inflation will be raised by almost 1 pp by the restoration of a higher VAT rate on food. By the end of 2025, inflation should be close to 4.5%. Once the regulatory changes are removed, such an outcome should coincide with the upper range of the permissible fluctuation band for the NBP target.

3.2.1. Core inflation

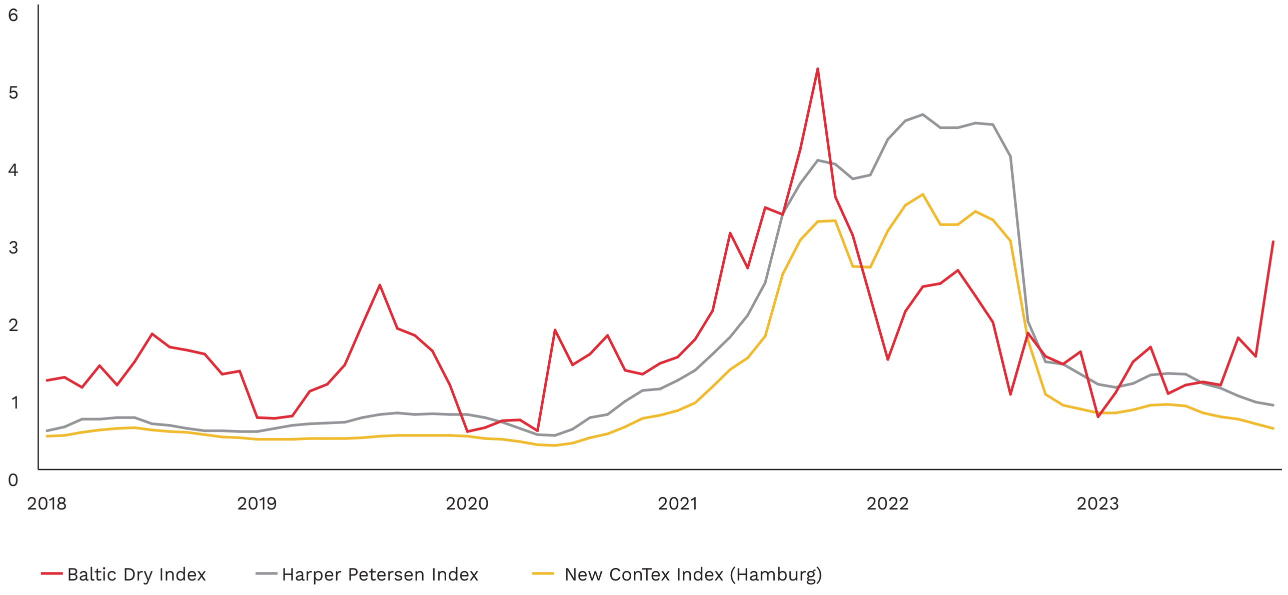
Core inflation will slightly decline in 2024. We forecast that it will average 6.3%, which is only a minor change compared to November (7.6%). Current data indicate that prices will continue to rise strongly, with prices accounting for 66% of consumer spending still rising at a rate of more than 5% y/y. We can observe a clear divergence here. The slowdown in inflation is due to declines in the prices of industrial goods, while the prices of services are rising at a rapid, almost double-digit, rate.

Businesses still have high inflation expectations. Current Central Statistical Office survey results indicate that the number of companies that declare increases is still higher compared to the peak of the pre-COVID-19 cycle in 2018-2019. Such results are consistent with core inflation rising above 4% y/y. Prices are most often raised by small and medium-sized companies due to rising business costs

Today, the argument for lower price growth is mainly attributable to the strong zloty. The strengthening of the zloty, which we saw in Q4 2023, contributes to the lower cost of imports of foreign goods. Compared to January, the USD and EUR are approximately PLN 0.3 cheaper – such levels were present before Russia's aggression against Ukraine.

Rising freight costs and wage pressures in EU countries remain a risk. The Baltic Dry index increased from US$1523 to US$2848 (87%) over the month. A similar trend is not evident in the European indices, nevertheless they may be showing a lag. Similarly, wage demands in Germany or Austria are today at levels similar to those in Poland, despite weaker productivity growth. Both factors may cause us to start importing price increases abroad.

Chart 14. Freight rate indices (in K pts)



Source: prepared by PEI on the basis of Macrobond data.

We expect core inflation to decline throughout 2025. At the end of the forecast horizon, the results are expected to be close to 3.5%, i.e. the upper fluctuation limit for the NBP target.

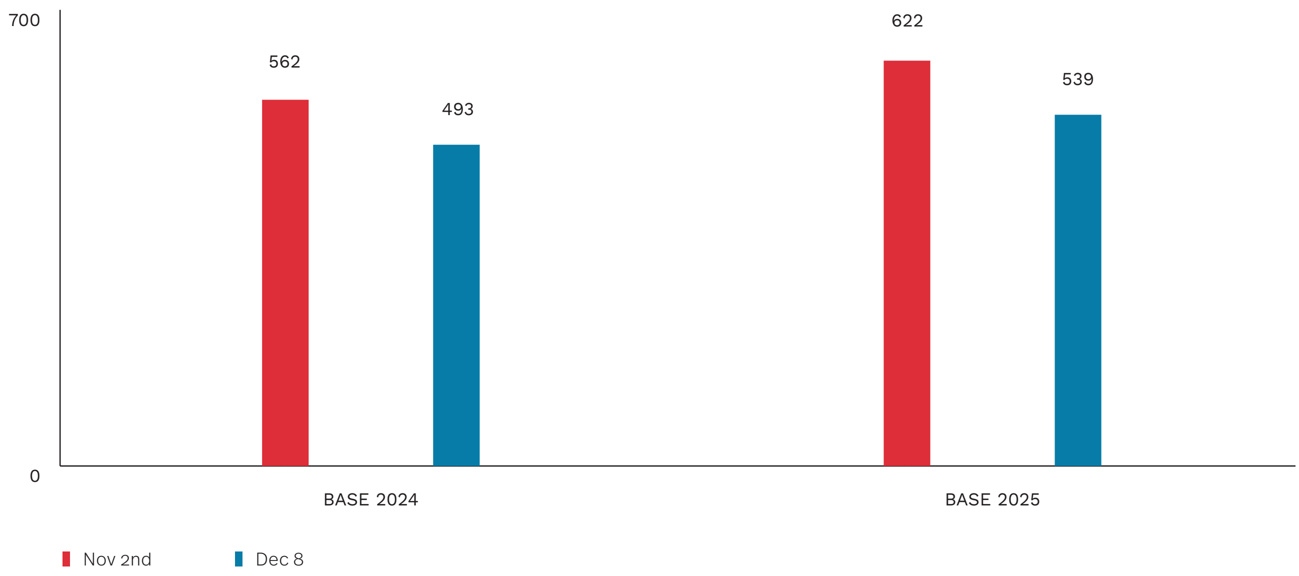
3.2.2. Energy prices

H1 2024 will bring a slight increase in energy prices. After freezing electricity and gas prices, the changes will be mainly related to the costs of heating and system heat. Here we expect slight fluctuations. Total energy prices will be higher by roughly 1%.

If the freeze is not extended, energy prices will increase in H2. Electricity generation prices in the contracts reported to the Energy Regulatory Office (URE) by the companies were expected to be higher by 76% compared to the period before the freeze (2022 tariffs), and gas by 48%, relatively. However, it should be remembered that the prices of power generation represent only one-half of the bill with the other being distribution, where the price increase is much smaller. Some of the changes may be withheld by the URE. Therefore, we assume that electricity and gas bills will increase by 25% and 20%, respectively. It is likely that the total pace of growth of energy carriers in H2 will reach 16.2%. In total, throughout the year, prices will have increased by 8.7% on average.

An increase in electricity and gas tariffs in 2025 is likely to be minor. Over the past month and a half, futures quotes for the supply of electricity on the wholesale market in 2024 and 2025 have fallen by around 12-13%. It is possible that this trend will continue, given the weak industrial situation in Germany as well as in the countries of the region. Under such circumstances, further price increases in January 2025 will now be in single digits. Nonetheless, the low base of H1 will be a sufficient factor for energy prices to rise by 14.3% for the year as a whole.

Chart 15. Energy contract prices on selected dates (in PLN/MWh)

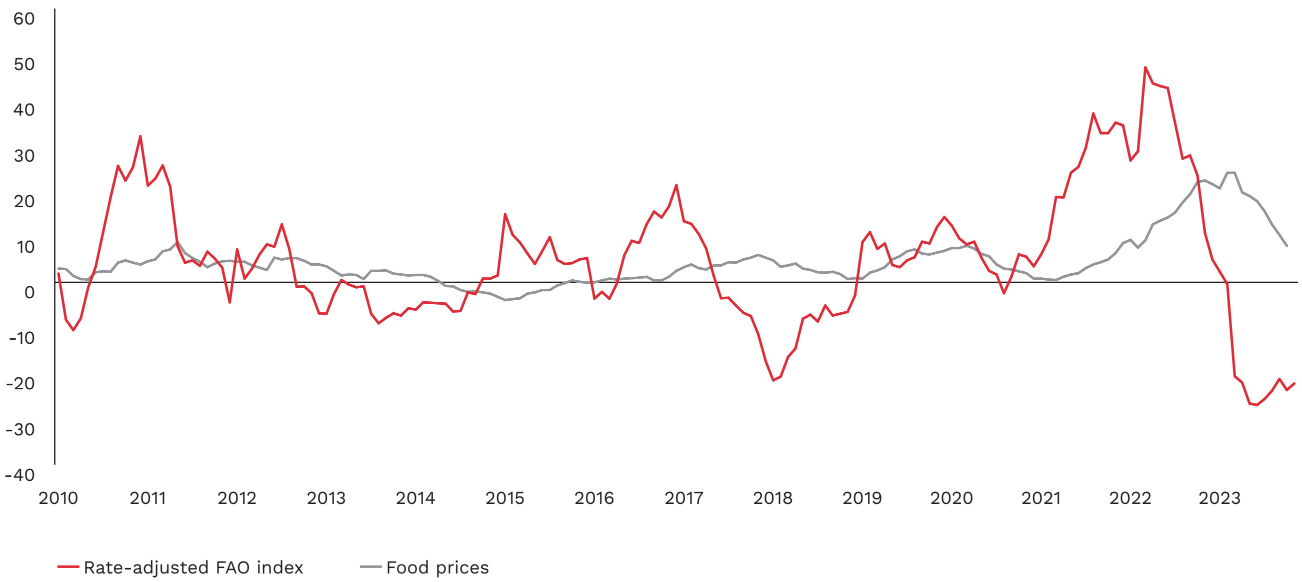


Source: prepared by PEI on the basis of TGE data.

3.2.3. Food prices

The rate of increase in food prices in 2024 will be modest. We expect it to fall during the year from 7.1% in November 2023 to 0.9% at the end of December 2024. In total, food prices will rise by 2.5% on average in 2024. This result is in line with the NBP's inflation target. Such a low increase results from two factors, i.e. the maintenance of the zero VAT rate and the decline in global food prices. FAO data indicate that the cost of food products is about 12% below last year's level – lower prices are seen for grain and oilseeds, i.e. commodities exported by Ukraine. The World Bank also points to significant discounts for nitrogen fertilisers – in 2023, the index illustrating the prices fell by 33.6%; in 2024, it is expected to fall by a further 15.4%. Thus, most of the consequences of the war were of a temporary nature.

Chart 16. Domestic and global food prices (% y/y)



Source: prepared by PEI on the basis of FAO and Central Statistical Office data.

The main focus of 2025 will be the return of the standard VAT rate. We expect such a decision to raise inflation by 0.8 pp. In the case of food prices, it will be an increase of more than 3 pp. Therefore, the growth rate will accelerate from 2.5% to 4.8%. While the beginning of the year will see slight price increases, H2 will see an acceleration of those. This will be the result of a rebound in global food prices.

3.3. Labour market

Despite weak economic activity, the labour market remains stable. The Ministry of Family and Social Policy estimates that the registered unemployment rate in November remained at a record low of 5.0%. We estimate that it will rise up to 5.2% by the end of the year due to seasonal changes. Eurostat indicates that the unemployment rate based on survey estimates was 2.7% in October, which is the second lowest in the European Union, after Malta.

Employment and unemployment in 2024 will be similar to current levels. However, a rebound in economic activity in later quarters and the return of seasonal work will boost demand for workers. Thus, unemployment will fall again in Q2. We expect the registered unemployment rate to reach 5.3% at the end of 2024.

The wage growth rate will slow down. And again, we expect wages to grow by an average of 12.6% in 2023, with a growth rate of around 11.5% as late as Q4. Next year, wages could continue to grow in double digits (10.3%), mainly due to increases in the minimum wage.

3.3.1. Employment

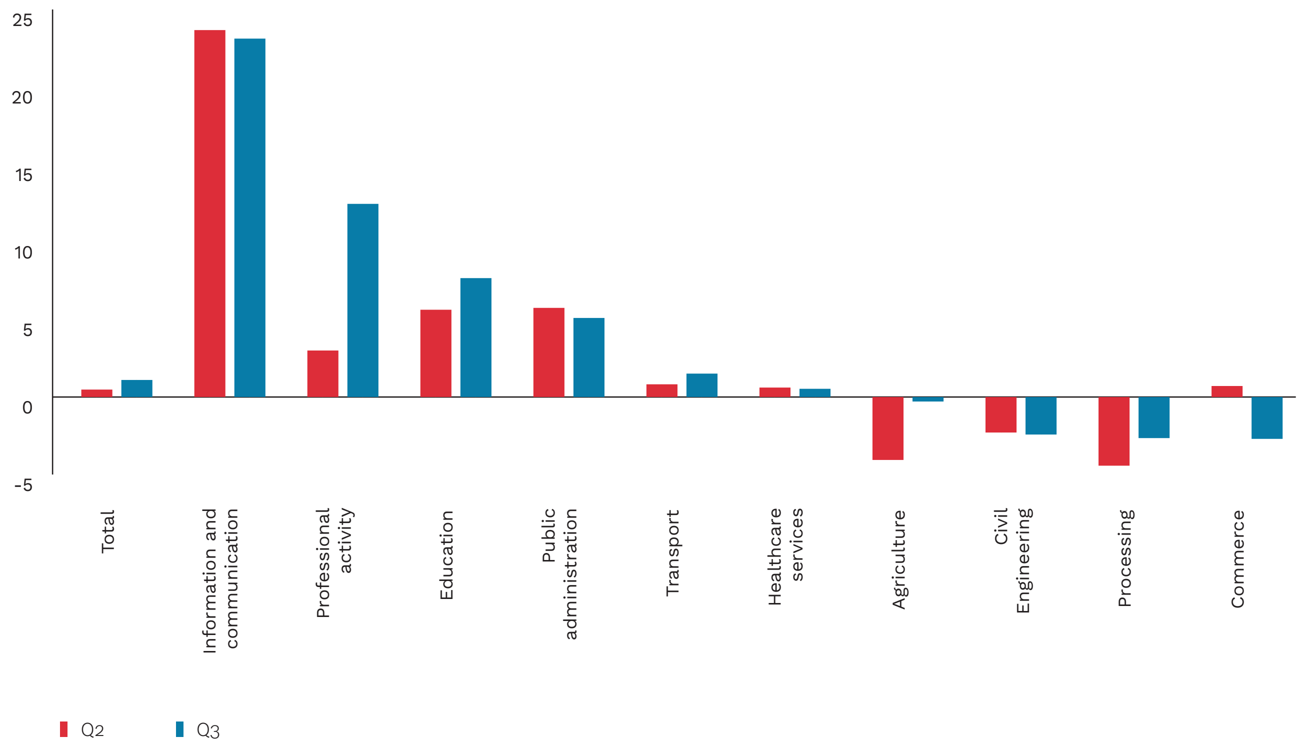
The economic slowdown has reduced the scale of employment. Employment in the business sector in November 2023 fell by 0.1% y/y. The situation is slightly better if we look at the economy as a whole. The Labour Force Survey indicates that employment in the national economy grew by 1.1% y/y in Q3. However, employment growth varies between industries. Companies providing services – such as in the ICT sector – are more likely to increase staff numbers, while industrial and sales-related companies are reducing staff numbers. In Q3, employment in trade, manufacturing and construction dropped by around 2.6%

Demand for workers remains low. The Central Statistical Office indicates that there were 111,200 job vacancies at the end of Q3 which accounts for 17.9% fewer than a year ago. Demand for labour declined in almost all industries. However, the largest decreases in demand for employees are reported by ICT (-44.3% y/y) and transport (-28.9% y/y) companies. Despite such a significant decline, companies in the ICT and construction sectors remain those most inclined to hiring.

Companies are reducing recruitment in response to low economic activity. In October, 85,000 new vacancies were registered with labour offices. This is 4.3% less than in the previous year. Excluding seasonal fluctuations, the data indicate that the number of available job offers has settled at a low level. This year, there were 23% fewer vacancies in labour offices than in 2019.

Employment prospects are slowly improving. The economic rebound will once again increase demand for labour. Central Statistical Office business climate surveys suggest a gradual improvement in trends over the coming months. Although the indicators of expected employment are negative in almost all sectors, their level is steadily recovering. A noticeable improvement in labour market sentiment is reported by construction and manufacturing companies. Employment expectations indicator in these industries has been increasing for a year. Similar trends are also indicated by the NBP's rapid monitoring. The employment expectations indicator rose from 16.7 to 19.7 pp in Q4, excluding seasonal fluctuations.

Chart 17. Employment in major industries by LFS (% y/y)

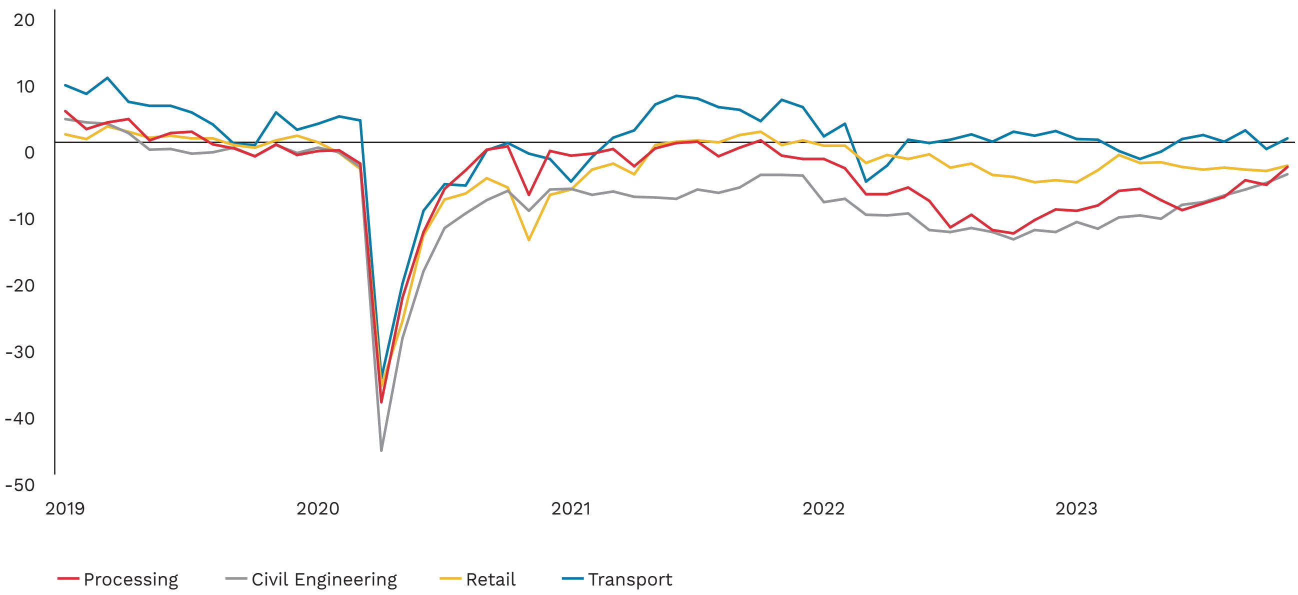


Source: prepared by PEI on the basis of Central Statistical Office data.

Chart 18. Vacancies and job offers at labour offices (in K, seasonally adjusted)

Note: offers registered with labour offices are reported monthly and vacancies are reported quarterly; the chart shows the closing figures.
Source: prepared by PEI on the basis of Eurostat and Central Statistical Office data.

Chart 19. Employment forecast – Central Statistical Office business climate survey (in pp.)

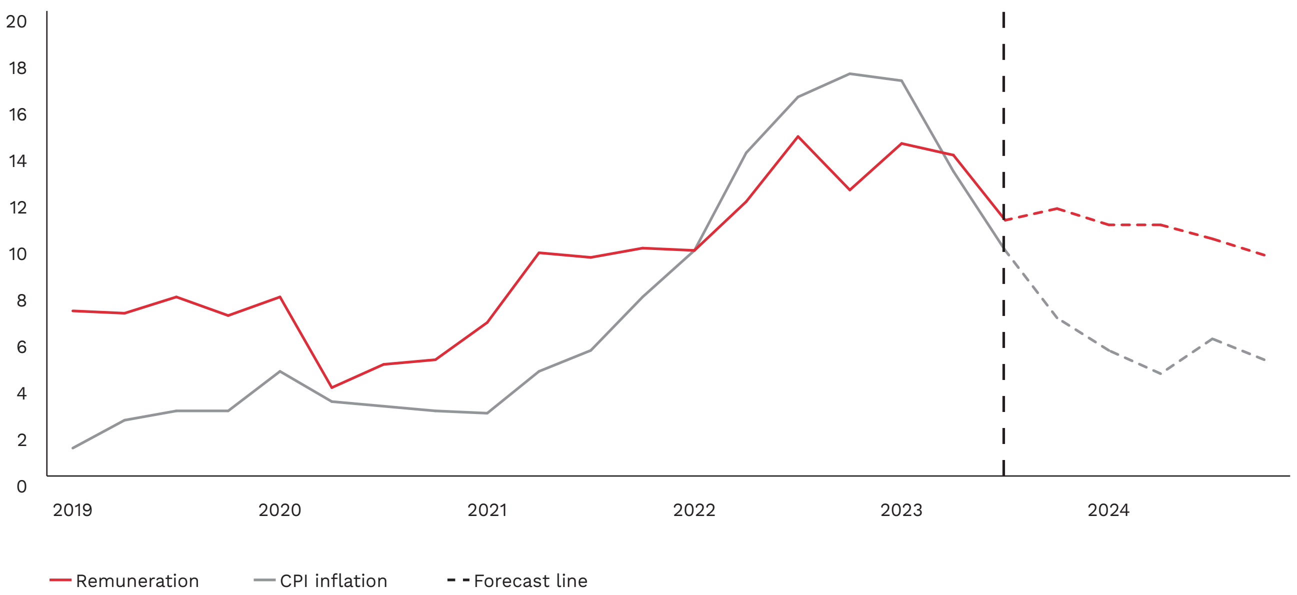


Source: prepared by PEI on the basis of Central Statistical Office data.

3.3.2. Remuneration

Wage growth again exceeds inflation. Since H2, the purchasing power has been increasing again, which means that consumer wealth is set to improve steadily. In Q4, salaries are around 11% higher than a year ago, while inflation has fallen to 6.5%. Such a difference has so far tended to appear only in periods of consumption boom – today it is a catch-up from last year.

Chart 20. Wage growth vs. inflation (% y/y)



Source: prepared by PEI on the basis of Central Statistical Office data.

The results of economic surveys signal lower wage pressure. Fewer and fewer companies surveyed by the NBP announced an increase in wages – the percentage fell in Q4 from 43.1% to 37.6%. The impact of wage pressure is also declining. Among the companies which can feel the pressure, fewer and fewer declare the intention to introduce pay rises. Excluding seasonal fluctuations, the percentage of those companies fell from 49.5% to 44.6% in Q4, which is around the long-term average.

The high rate of wage growth will be linked to administrative decisions. In January, the minimum wage is set to increase by 22% y/y. Also, there will be significant increases in education and the budgetary sphere. We therefore expect wage growth to remain high despite the slowdown.

Although the wage growth exceeds productivity improvements, it will not result in layoffs. The last 2 years have seen the share of wages in total company costs fall from 15.7% in 2019 to 13.6% in 2022. After a significant increase in the lower wages, we will probably see a return of the proportion to pre-pandemic levels. Attention should also be paid to the profitability of large and medium-sized companies, which today corresponds to average levels for the business cycle – thus they have financial buffers for implementing decisions. Under such conditions, a noticeable increase in the minimum wage will not result in negative consequences in employment.

Forecast table

Details	2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Economic activity (% y/y)								
GDP	-0.3	-0.6	0.5	1.3	2.2	2.7	2.3	2.0
Household consumption	-2.0	-2.8	0.8	1.1	2.3	2.7	2.9	3.3
Public consumption	-0.3	2.1	3.1	3.1	2.3	2.4	2.1	2.4
Capital expenditure	6.8	10.5	7.2	6.7	4.5	2.9	0.0	-0.4
Export	3.8	-3.2	-11.0	-2.1	3.4	3.3	3.0	3.2
Import	-3.2	-6.8	-20.3	-2.0	3.3	3.6	3.2	4.0
Inflation (% y/y)								
CPI	17.0	13.1	9.7	6.8	5.4	4.4	5.9	5.0
Core inflation	12.0	11.6	9.7	7.7	7.2	6.4	6.2	5.4
Labour market								
Registered unemployment rate	5.5	5.0	5.0	5.2	5.3	5.1	5.1	5.3
Wages in the national economy (% y/y)	14.3	13.8	11.0	11.5	10.8	10.8	10.2	9.5

Details	2022	2023	2024	2025
Economic activity (% y/y)				
GDP	5.2	0.3	2.3	3.4
Household consumption	5.2	-0.7	2.8	3.5
Public consumption	0.7	2.1	2.3	1.6
Capital expenditure	4.9	7.6	1.2	5.7
Export	6.7	-3.2	3.2	3.7
Import	6.6	-8.0	3.5	3.7
Inflation (% y/y)				
CPI	14.3	11.6	5.1	5.0
Core inflation	9.1	10.2	6.3	4.1
Labour market				
Registered unemployment rate (year-end)	5.5	5.2	5.3	5.4
Wages in the national economy (% y/y)	12.1	12.6	10.3	8.1

Source: prepared by PEI.

List of charts

The Polish Economic Institute

The Polish Economic Institute is a public economic think tank dating back to 1928. Its research primarily spans macroeconomics, energy and climate, foreign trade, economic foresight, the digital economy and behavioural economics. The Institute provides reports, analyses and recommendations for key areas of the economy and social life in Poland, taking into account the international situation.

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