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Economic Comment

Labour market faltered in December

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December labour market statistics were clearly disappointing. Wages slowed down to 10.3% y/y in December from 13.9% y/y in November. In real terms, they slumped by as much as 5.4% y/y. We do not rule out that some companies held back wage hikes until minimum wage rise stepping in January 2023, which will trigger an update in wage schemes anyway. We think that wage growth will remain in double-digit territory in the months to come, but we do not see much potential for a more pronounced acceleration, given slowing economy and pressure on companies financial results. Employment unexpectedly slowed to 2.2% y/y in December from 2.3% y/y in November and is likely to lose momentum further. December's labour market data confirm that the Polish economy is feeling the impact of the economic slowdown, with the market adjusting more through a decline in real wages rather than through cuts in employment – in line with our call. The weaker labour market situation will have a negative impact on private consumption in the coming quarters. On the other hand, there are more and more signs that the downturn may turn out to be shallower and shorter than we had anticipated (thanks to exceptionally mild winter, which reduces the risk of energy shortages and lowers commodity prices, e.g. for gas), and the sooner we enter a new phase of recovery, the more quickly the weakness in the labour market should end. Meanwhile, January business climate indicators improved in most sectors, but not in industry.

Labour market visibly weaker

Employment slowed to 2.2% y/y in December from 2.3% y/y in November, after a decline by 2.8k jobs in monthly terms. As in the previous months, manufacturing was a clear underperformer, shedding 8.6k jobs. The economic slowdown is clearly taking its toll on the sector. Employment in other sectors, though is rising roughly in line with seasonal patterns, with some slight weaker signals in trade (+3k jobs vs previous years' average at 5k jobs). We are expecting the employment growth to be weakening in the months to come.

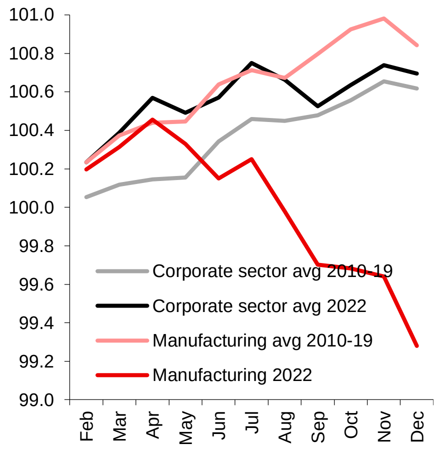
Wages slowed down to 10.3% y/y in December from 13.9% y/y in November. In real terms, they slumped by as much as 5.4% y/y. Wages in mining slowed to 15.9% y/y from 35.8% y/y, in line with our expectations. One of major mining companies decided to pay miner's day benefit in November (usually its paid in December), but then disbursed an additional inflation bonus in December. Behaviour of other sectors came as a surprise with a broad-based slowdown, bringing wages ex mining down to 10.1% y/y from 13.2% y/y in November and wages in services to 11.2% y/y from 15.1% y/y. While some base effects are in play, as December 2021 was stronger than usually, monthly momentum in December 2022 is rather weak compared to previous years. Clearly, end of year bonuses were uninspiring, which probably can be attributed to a major deterioration of Polish companies' financial results in 2H22. Another idea is that some companies held back wage hikes until minimum wage rise stepping in January 2023, which will trigger an update in wage schemes anyway. We will be able to test this hypothesis in February, when January labour market statistics will become available. We think that wage growth will remain in double-digit territory in the months to come, but we do not see much potential for a more pronounced acceleration.

December's labour market data confirm that the Polish economy is feeling the impact of the economic slowdown, with the market adjusting more through a decline in real wages rather than through cuts in employment. The weaker labour market situation will have a negative impact on private consumption in the coming quarters.

Business sentiment improved at the start of the year

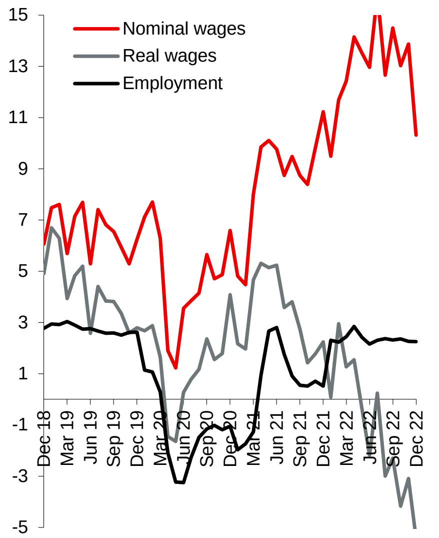
The January gauge of business confidence in the Polish economy showed a m/m improvement in most sectors. Retail and wholesale trade indexes gained the most in SA terms (1.8-1.9 pts), and are already relatively close to their long-term averages (3 pts and 8 pts below the average, respectively) compared to industry (18 pts below) or construction (16

Employment in Corporate sector, January = 100



Source: NBP, Santander

Wages and employment, % y/y



Source: GUS, Santander

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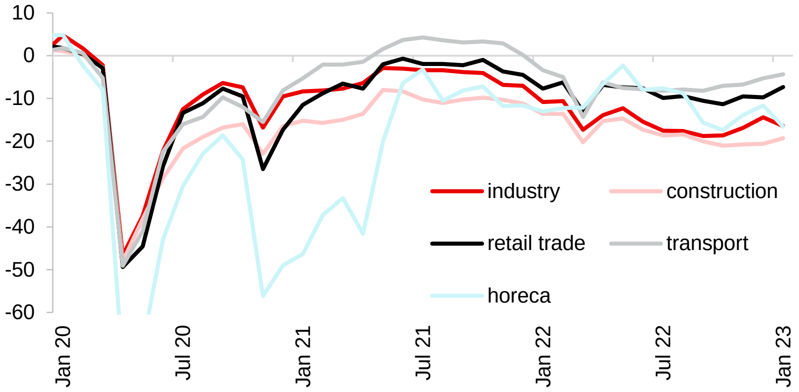
pts below). The improving sentiment was based on better current assessment rather than on expectations going up.

Sectoral business sentiment indexes, SA



Source: GUS, Santander

The largest worsening of sentiment was seen in hotels and restaurants – the sector was the only only one to report weaker current business conditions and reduced its expectations significantly. There was also an unexpected decline in manufacturing sentiment index by 1.8 pts, but it came after two months of significant improvement worth more than 4 pts so it is not enough to remove the feeling that there is a quite early recovery in Polish industry (seen also in the relatively quick rebound of manufacturing PMI).