21 April 2023

Economic Comment

Labour market is weak, but sentiments improve

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Employment rose by 0.5% y/y in March, in line with our expectations and compared to 0.8% y/y in February. In monthly terms, employment fell by 9.5k, marking the worst March since 2009. Wages advanced by 12.6% y/y in March vs 13.6% y/y in February, roughly in line with expectations. The economic slowdown is clearly taking its toll on the labour market, as reflected in very weak performance of employment. We think that demand for labour is likely to remain under pressure in the upcoming months, and some rebound may appear in 2H23. Wages are still rising at double-digit rate and we are expect to it to stay so through 2023. The high nominal wage growth will be fuelling core inflation.

April's business climate indicators in April improved in all sectors of the economy, according to the GUS survey. The trend of improvement is quite clear and seems consistent with our scenario of gradual economic recovery later this year

General government balance in 2022 reached -3.7% of GDP and GG debt was at 49.1% of GDP. We think that the fiscal deficit this year is likely to expand to around 5% of GDP, while the debt-to-GDP ratio should remain roughly stable amid double digit nominal GDP expansion.

Labour market slowing down

Employment rose by 0.5% y/y in March, in line with our expectations and compared to 0.8% y/y in February. In monthly terms, employment fell by 9.5k, marking the worst March since 2009. Most jobs were shed in manufacturing (3.4k), transport (2.3k) and trade (2.0k), but virtually all sectors but restaurants and hotels were reducing employment.

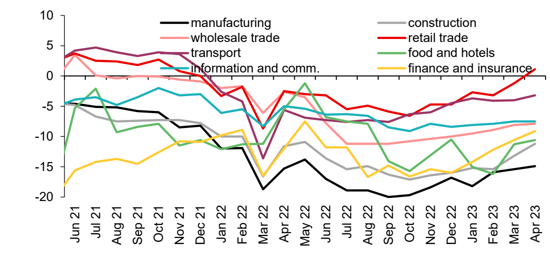
Wages advanced by 12.6% y/y in March vs 13.6% y/y in February, roughly in line with expectations (we: 12.3%, market: 12.5%). Wages ex mining slowed to 13.0% y/y from 13.4% y/y and wages in services to 13.9% y/y from 14.9% y/y. The wage momentum remains relatively high and slowdown in annual growth was mostly due to swings in payments in mining (which recently records often wage raises and inflation-related benefits) and high statistical base in transport (effects of the mobility package introduced in 2022). In real terms wages fell by 3.0% y/y after a decline by 4.0% y/y in February.

The economic slowdown is clearly taking its toll on the labour market, as reflected in very weak performance of employment. We think that demand for labour is likely to remain under pressure in the upcoming months, and some rebound may appear in 2H23. Wages are still rising at double-digit rate and we are expect to it to stay so through 2023. Note however that they are declining in real terms and we are expecting this phenomenon to be the main channel of adjustment in the labour market. Still, the high nominal wage growth will be fuelling core inflation.

Further improvement in corporate optimism

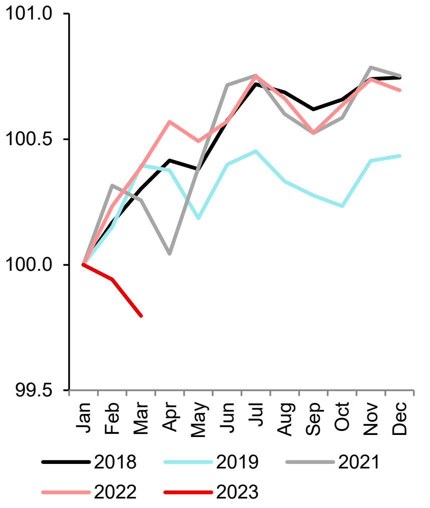
April's business climate indicators improved in all sectors of the economy, according to the GUS survey. While current assessment was mostly similar to March levels, majority of the sectors reported a rise in expected situation. All indicators, except the retail trade, remained below the long-term average, yet the trend of improvement is quite clear and seems consistent with our scenario of gradual economic recovery later this year

GUS business climate indicators, deviation from average



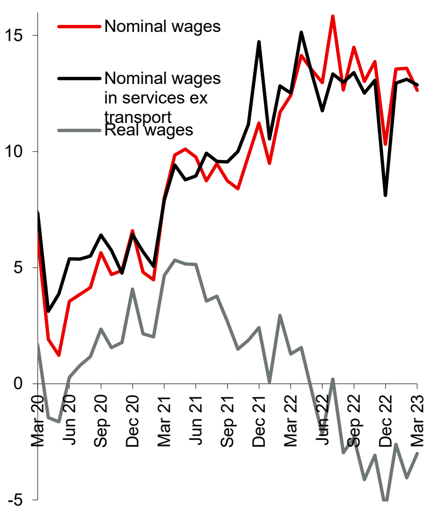
Source: GUS, Santander

Employment in corporate sector, January = 100



Source: GUS, Santander

Wage growth, % y/y



Source: GUS, Santander

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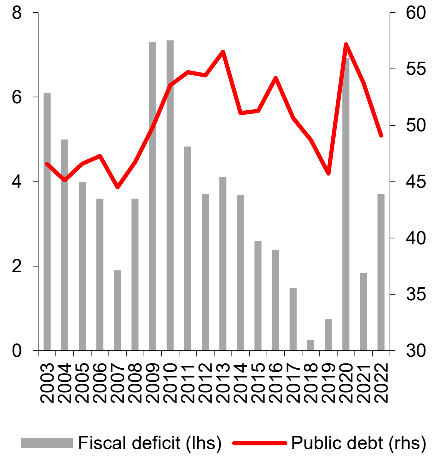
General government deficit up, debt down

General government balance in 2022 reached -3.7% of GDP (-PLN115bn), versus flash estimate -3.4% of GDP released on April 3rd and -1.8% of GDP recorded in 2021. GG debt was at 49.1% of GDP, in line with the flash estimate and down from 53.6% in 2021. We still think that the fiscal deficit this year is likely to expand to around 5% of GDP, while the debt-to-GDP ratio should remain roughly stable amid double digit nominal GDP expansion.

General government debt and deficit, % of GDP



Source: GUS, Eurostat, Santander