

Unemployment at the bottom and inflation plateau

TOP MACRO THEME(S):

- **Unemployment at the bottom (p. 2):** Unemployment rate in June was the lowest on record (4.9%) and, as the domestic labour supply is set to shrink, will stay low for longer.
- **Inflation plateau (p. 3):** Inflation rate in July remained at 15.5% y/y and core inflation (% m/m sa) decelerated for the second consecutive month.

WHAT ELSE CAUGHT OUR EYE:

- **Poland's state budget recorded a PLN 27.7 billion surplus in 1h22.** The surplus was equal to PLN 15.6 billion in June alone, largely due to the PLN 10.4 billion transfer from the NBP profit. Even excluding the impact of the NBP profit, the current income situation of the budget remains good, although it is increasingly burdened by Anti-Inflation Shields and the PIT reform that is hampering VAT and PIT revenues.
- **Fitch affirmed Poland's rating at 'A-' with stable outlook.** The agency underlined the country's diversified economy, sound macroeconomic framework and lower public debt levels vs peers, along with expectations of Poland's continued resilience to external shocks.
- **The NBP Quick Monitoring Survey** indicates that the non-financial corporate sector expects a clear economic slowdown, but its stance in 1q22 was still very good (although varied by sectors). In 2q22, the mismatch between inventories and inventory needs diminished, but it likely resulted more from deteriorating demand outlook than easing supply tensions. The percentage of companies planning to raise wages and experiencing wage pressure has reached new record high. The average declared wage increase remained however at approx. 7%. The survey also indicates, that the recent PLN depreciation has led to a sharp decline in the profitability of imports, which resulted in a short-term suspension of import activity by some companies.

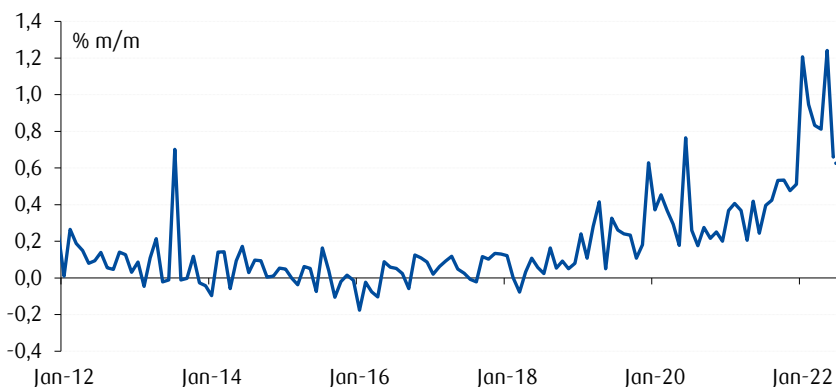
THE WEEK AHEAD:

- **We expect manufacturing PMI to go deeper below the neutral threshold of 50pts. in July,** as high uncertainty before the winter heating season that is hampering business climate in the European manufacturing sector is adversely affecting Polish manufacturers as well.

NUMBER OF THE WEEK:

- **PLN 10 billion** – the value of private humanitarian aid to Ukrainian refugees in the first three months of the war, on Polish Economic Institute [estimates](#).

Chart of the week – CPI core inflation momentum (% m/m, sa) deceleration*



Source: GUS, PKO Bank Polski. *PKO estimate for July observation

Chief Economist

Piotr Bujak
piotr.bujak@pkobp.pl
tel. +48 22 521 80 84

Macro Research Team

[@PKO_Research](#)

Marta Petka-Zagajewska
Senior Economist
marta.petka-zagajewska@pkobp.pl
tel. +48 22 521 67 97

Urszula Krynska
Economist
urszula.krynska@pkobp.pl
tel. +48 22 521 51 32

Kamil Pastor
Economist
kamil.pastor@pkobp.pl
tel. +48 22 521 81 08

Michal Rot
Economist
michal.rot@pkobp.pl
tel. +48 22 580 34 22

	2021	2022 _†
Real GDP (%)	5.9	4.9
Industrial output (%)	15.4	12.9
Unemployment rate [#] (%)	5.4	4.7
CPI inflation ^{**} (%)	5.1	13.1
Core inflation ^{**} (%)	4.1	8.2
Money supply M3 (%)	8.9	5.6
C/A balance (% GDP)	-0.7	-3.5
Fiscal balance (% GDP)*	-1.9	-2.8
Public debt (% GDP)*	53.8	50.4
NBP reference rate ^{##} (%)	1.75	7.00
EURPLN ^{###}	4.60	4.62

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

Unemployment at the bottom

- Unemployment rate in June was the lowest on record (4.9%) and, as the domestic labour supply is set to shrink, will stay low for longer.
- Looking at the detailed StatOffice data we see that the record low unemployment has been achieved despite declining labour demand.

Registered unemployment rate in June fell to 4.9% from 5.1% on May and was the lowest since the economic transition in early 1990s. The final reading has confirmed early MinLab estimates.

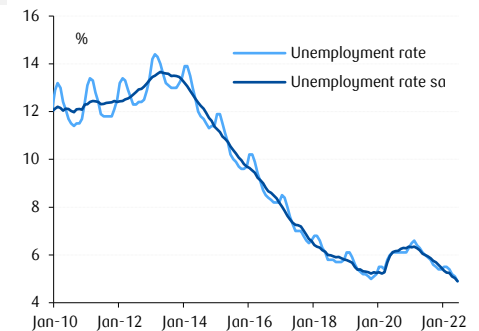
The number of unemployed in the registry declined by 32 thousand in a month, and at 818 thousand was the lowest since July 1990. The number of newly registered unemployed increased however by 11.3% y/y, and June was the fourth month in a row with the y/y growth. This increase is, at least partly, caused by the registrations of the refugees from Ukraine that amounted to approx. 7.5% of new unemployed in the first half of 2022.

The decrease in the number of unemployed by 17.7% y/y in June was achieved mainly thanks to the growing number of people removed from the unemployment registers. This included the surprisingly low number of people taking up jobs, that was by 17.3% lower than a year ago, while the number of unemployed removed from registers for other reasons (including retirement) increased by 43% y/y. It seems that as the demand for labour is shrinking the demographics is playing first fiddle on the Polish labour market.

Indeed, the number of job offers submitted to the job offices during the month fell by 18.3% y/y, and June was the third month in a row with a negative dynamics in the number of submitted job offers. This sign of the demand for labour has as well been confirmed by the number of jobs offers posted online, on the job platforms we regularly analyse. The official data indicate however, that the number of unemployed per job offer, equal to 8.5, is close to historical lows, and much below numbers observed some years ago.

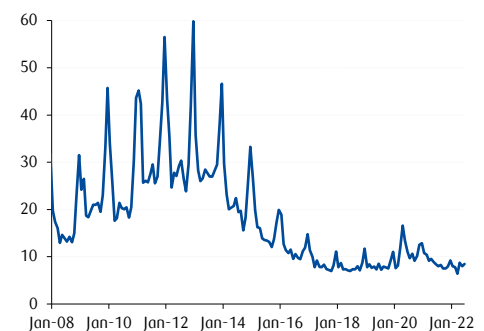
At the end of 2019 we argued, based on the age structure of the population, that in the next 5 years cohorts entering labour market (reaching age of 18) would be by approx. 150 thousand annually smaller than those exiting labour market (reaching statutory retirement age) limiting the scope for unemployment growth (cyclically lower labour demand would be met by labour shortages). The pandemic shock caused unemployment growth, but right now this assessment is still valid. Looking at the age structure of the population as of the end of 2021, we see the gap of more than 100 thousand people annually in the next three years (see margin chart). In our opinion, the demographic situation and the shrinking labour force mean that even an economic slowdown and a decline in labour demand will not result in a noticeable increase in unemployment in Poland.

Registered unemployment



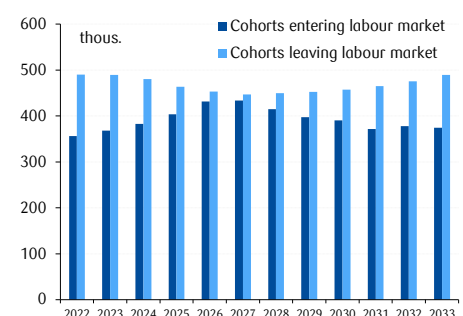
Source: GUS, PKO Bank Polski.

Number of unemployed per job offer



Source: GUS, PKO Bank Polski.

Age structure of the population as of Dec' 2021



Source: GUS, PKO Bank Polski.

Inflation plateau

- Inflation rate in July remained at 15.5% y/y – the same level as in June. According to our estimates July was the second month in the row with the deceleration of core inflation momentum (% m/m sa), supporting our scenario of a quick end of NBP rate hikes cycle.
- We assume that CPI inflation has entered “plateau” phase - it will fluctuate around 15% y/y until September and fall to around 13.5% y/y at the end of the year.

According to the StatOffice preliminary estimate, CPI inflation in July was equal to 15.5% y/y, and remained at the level from June. In July, disinflationary and pro-inflationary factors balanced each other - fuel prices fell while food, energy and the core part of the basket accelerated. According to our estimates, the momentum of core inflation (% m/m after seasonal adjustment) decelerated for the second consecutive month.

The prices of food and non-alcoholic beverages rose 0.6% m/m in July, slightly weaker than our estimate. This is still a stronger change than the seasonal pattern, according to which food prices fall in July and August. One factor that may have boosted prices was the “sugar panic” (similar to the run on banks, but concerning sugar), the magnitude of which will be known when the full data are published. Despite the deceleration on a monthly basis, the annual growth rate of food prices went up to 15.3% y/y from 14.2% y/y in June.

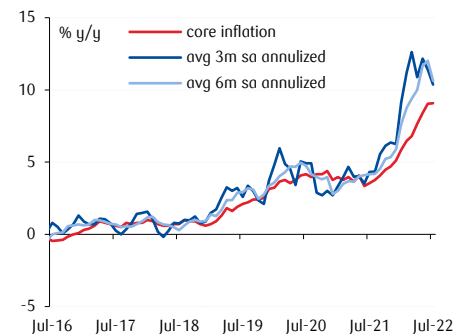
According to the preliminary data, fuels in July were cheaper by 2.6% m/m. This means that StatOffice, for methodological reasons, did not take into account special discounts applied at some gas station chains (“-0.3PLN per liter”, ~0.06EUR). Given the declines in fuel prices observed at the end of July, it could not be ruled out that the drop in fuel prices in the final reading would turn out to be deeper.

Prices of energy rose by “only” 1.3% m/m. Some deceleration of growth in this category was earlier indicated by the slowing retail prices of coal (in 2021 approx. 3.1 mln of households (20% of all) used coal for heating). Prices in other categories in this group, i.e. gas, electricity, central heating, are to a large degree controlled administratively and are changed relatively rarely. Significant price increases in this category can be expected with the new tariffs published by the Energy Regulatory Office (probably at the end of the year).

In our view, core inflation in July remained at the June level, i.e. 9.1-9.2% y/y. In m/m terms, we have probably observed a second month of deceleration (0.4-0.5% m/m; 0.6% m/m sa). This is consistent with the scenario that companies can no longer pass higher costs on consumers due to slowing demand and high levels of inventories. This may lead to a forced reduction in the scale of price increases at the expense of lower corporate margins.

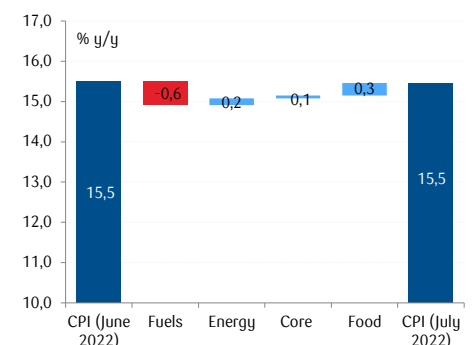
We assume that inflation has entered a “plateau” phase. We estimate that it will fluctuate around 15% y/y until September, and by the end of the year it will decrease slightly to around 13.5% y/y. The inflation rate at the beginning of next year will depend on the timing of the expiration of the so called “Anti-inflation Shields” (tax rate cuts for food and energy) and the scale of energy price increases. Shortly after the CPI publication prime minister M.Morawiecki pledged that the Shields will be extended until end of the year (previously until end of October). In our view the tax rate cuts could be prolonged even further to avoid inflation spike to around, or above 20% y/y at the beginning of next year. The exact date of the Shields’ expiration (de facto tax rate hike) should have no impact on actual inflationary processes, and therefore also on the MPC’s decisions. July inflation data support the scenario of a quick end to the NBP rate hike cycle (max. one 50bp hike to 7.0% in September).

Core CPI inflation



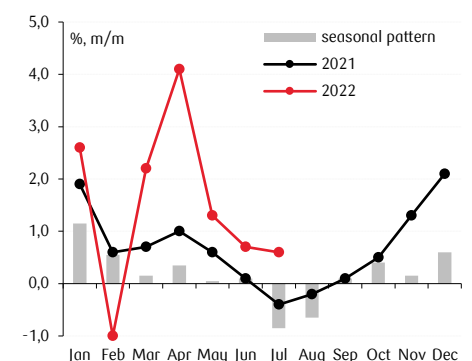
Source: GUS, PKO Bank Polski.

July CPI inflation decomposition



Source: GUS, PKO Bank Polski.

Food inflation vs seasonal pattern*



Source: GUS, PKO Bank Polski. *in Feb22 VAT rates cut for food

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 1 August						
CHN: Manufacturing PMI (Jul)	2:45	pts.	51.7	51.5	--	--
POL: Manufacturing PMI (Jul)	8:00	pts.	44.4	43.6	43.6	High uncertainty before the winter heating season that is hampering business climate in the European manufacturing sector is adversely affecting Polish manufacturers as well.
GER: Manufacturing PMI (Jul, final)	8:55	pts.	52.0	49.2	--	--
EUR: Manufacturing PMI (Jul, final)	9:00	pts.	52.1	49.6	--	--
USA: Manufacturing PMI (Jul, final)	14:45	pts.	52.7	52.3	--	--
USA: ISM Manufacturing (Jul)	15:00	pts.	53.0	52.1	--	--
GER: Retail sales (Jun)	7:20	% y/y	0.4	-8.3	--	--
Tuesday, 2 August						
USA: JOLTS Report (Jun)	15:00	thous.	11254	10994	--	--
Wednesday, 3 August						
GER: Exports (Jun)	7:00	% m/m	-0.5	1.0	--	--
GER: Imports (Jun)	7:00	% m/m	2.7	2.0	--	--
GER: Services PMI (Jul, final)	8:55	pts.	49.2	49.2	--	--
EUR: Services PMI (Jul, final)	9:00	pts.	50.6	50.6	--	--
EUR: PPI inflation (Jun)	10:00	% y/y	36.3	35.7	--	--
EUR: Retail sales (Jun)	10:00	% y/y	0.2	-1.7	--	--
USA: Factory orders (Jun)	15:00	% m/m	1.6	0.8	--	--
USA: Durable goods orders (Jun, final)	15:00	% m/m	1.9	--	--	--
Thursday, 4 August						
GER: Factory orders (Jun)	7:00	% m/m	0.1	--	--	--
GER: Factory orders (Jun)	7:00	% y/y	-3.1	-10.4	--	--
UK: BoE meeting (Aug)	12:00	%	1.25	1.75	--	--
USA: Trade balance (Jun)	13:30	bln	-85.5	-82.3	--	--
CZ: Central bank meeting (Aug)	13:30	%	7	7.25	--	--
USA: Initial Jobless Claims (Jul)	13:30	thous.	256	250	--	--
Friday, 5 August						
GER: Industrial production (Jun)	7:00	% m/m	0.2	--	--	--
GER: Industrial output (Jun)	7:00	% y/y	-1.5	-1.2	--	--
USA: Non-Farm Payrolls (Jul)	13:30	thous.	372	255	--	--
USA: Unemployment Rate (Jul)	13:30	%	3.6	3.6	--	--
USA: Average Earnings (Jul)	13:30	% y/y	5.1	4.9	--	--

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^
L. Kotecki	4.8	"So far I have believed, and I maintain this, that there will be no real recession in Poland, maybe a technical one. Instead, I believe that we will have textbook stagflation. That means all-time high inflation and slightly positive, near-zero GDP growth. This is the worst-case scenario for the current Monetary Policy Council, because you don't really know what to do about it." (15.07.2022, DGP, PAP)
H. Wnorowski	4.2	"It seems that we still have perhaps one or a few interest rate hikes ahead of us, but they seem to be minor already. (...) It has been said that perhaps (inflation - ed.) will exceed even 20 percent. I personally do not consider such a scenario, I do not see such a threat. We're at 15.5 percent, and I think, we're still ahead of the July reading, which I think will maybe still be about 1 point, maybe less than 1 point, higher. (...) The highest will be the August reading and we will start to go down the other way." (20.07.2022, TVP Bialystok, PAP)
A. Glapinski	3.4	"Right now we have the highest interest rates and the highest inflation. (...) If there are any more rates increases it will be one by 25bp. (15.07.2022, informal conversation with political activist in Sopot, Pomorskie posted on Youtube) "Lowering inflation that has been caused by strong supply-side shocks has to be done gradually, especially as a marked slowdown of economic growth is expected, so as to avoid generating excessive social costs and particularly high unemployment. (...) Hence, the monetary policy will still be conducted in a responsible way to lower inflation and at the same time maintain balanced economic growth. (21.07.2022, PAP)
I. Dqbrowski	3.1	"In my opinion, if there will be another rate hike, it will be rather small - on a comparable scale to the last one (50bp - ed.) or even lower. If the decision depended solely on me, I would not raise rates at all anymore, or at most once by 25 bps." (19.07.2022, PAP)
C. Kochalski	3.1	"The room for rate hikes is in July, possibly also in September. (...) 50-75 bps are the very likely ranges of the pace of change of interest rates. (...) We expect inflation peak to take place in Q3." (10.06.2022, PAP).
P. Litwiniuk	2.9	" "The hike like the one from April, when [interest rates] were raised by 100 bps in hope that it would solve the FX issue, was excessive. (...) I think that it had the attributes of a hysterical hike, which instead of building trust in the zloty reduced it, and in this way we failed to achieve any effects related to such drastic move, while suffering . . . considerable costs." (22.07.2022, TVN24, PAP)
W. Janczyk	2.4	"The coming months, I hope, will bring no particular reasons to continue the interest rate hike cycle, although the impact of energy prices in the upcoming autumn-winter season on the economy and consumers is hard to predict right now. (...) "The council will act adequately to situation in our economy. In my opinion, it will strive to keep the lowest possible interest rate levels [while] targeting a realistic return to the inflation target." (21.07.2022, PAP).
(Vacant places (3))	--	--

*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.

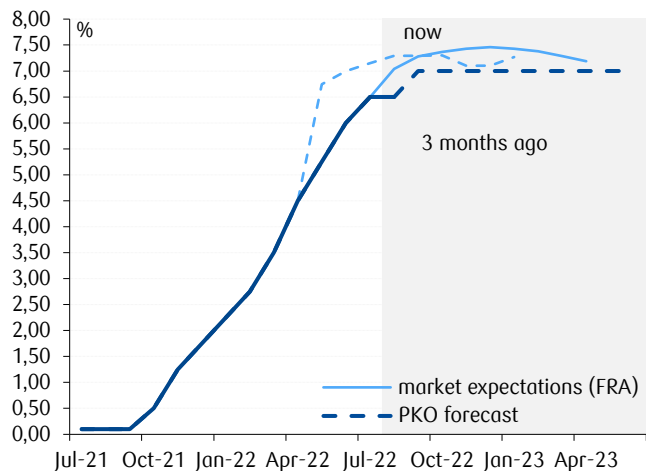
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	28-Jul	28-Aug	28-Sep	28-Oct	28-Nov	28-Dec	28-Jan	28-Feb	28-Mar	28-Apr
WIBOR 3M/FRA†	7.01	7.24	7.48	7.57	7.63	7.66	7.63	7.58	7.49	7.39
implied change (b. p.)		0.23	0.47	0.56	0.62	0.65	0.62	0.57	0.48	0.38
MPC Meeting	7-Jul	-	7-Sep	5-Oct	9-Nov	7-Dec	-	-	-	-
PKO BP forecast*	6.50	6.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
market pricing*		6.73	6.97	7.06	7.12	7.15	7.12	7.07	6.98	6.88

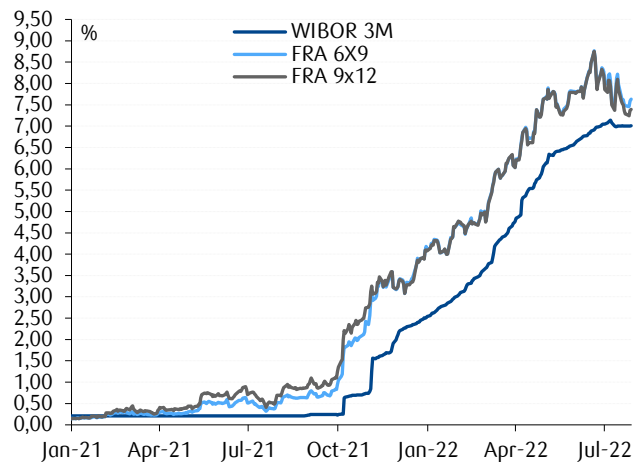
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

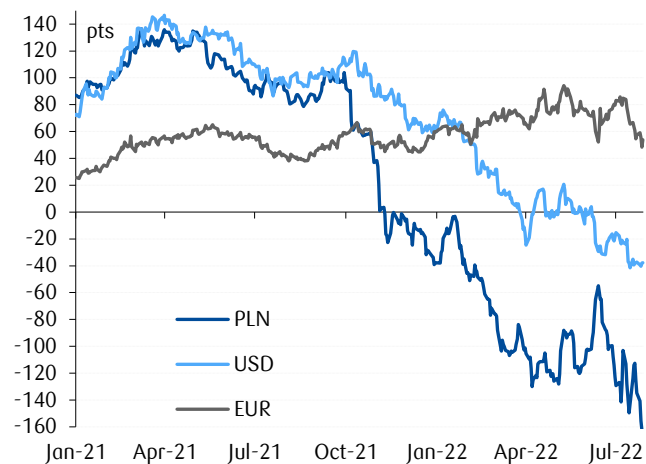
NBP policy rate: PKO BP forecast vs. market expectations



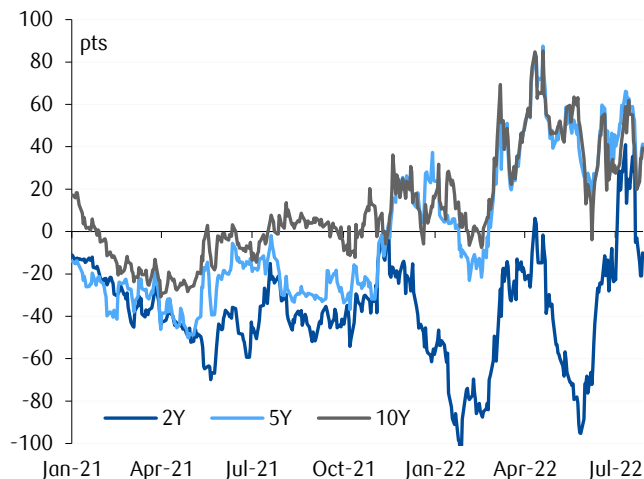
Short-term PLN interest rates



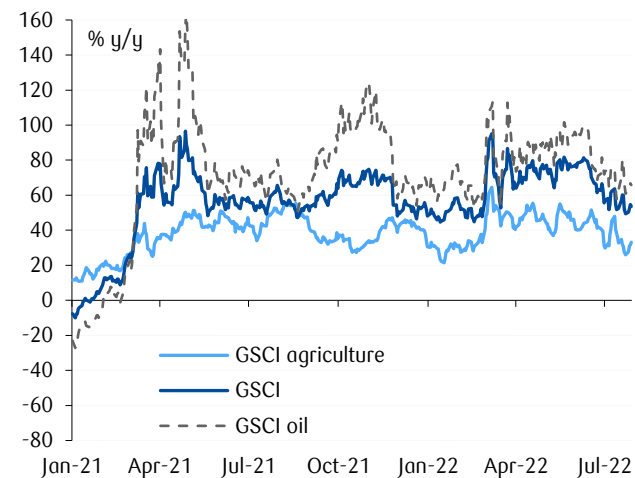
Slope of the swap curve (spread 10Y-2Y)*



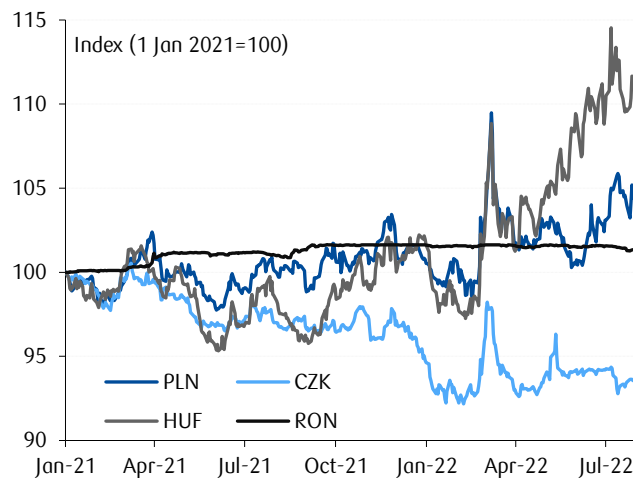
PLN asset swap spread



Global commodity prices (in PLN)

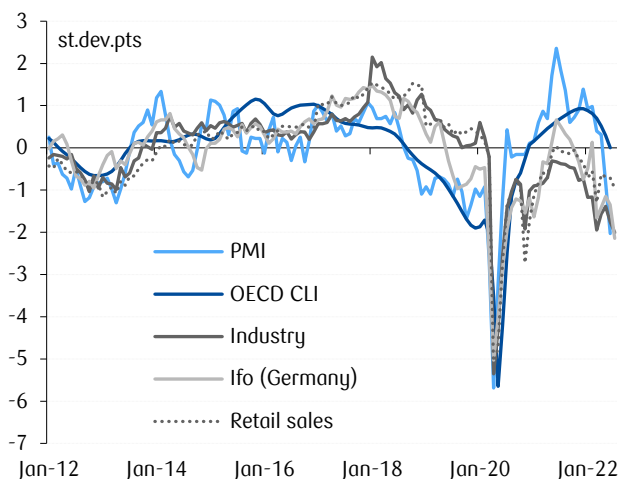


Selected CEE exchange rates against the EUR

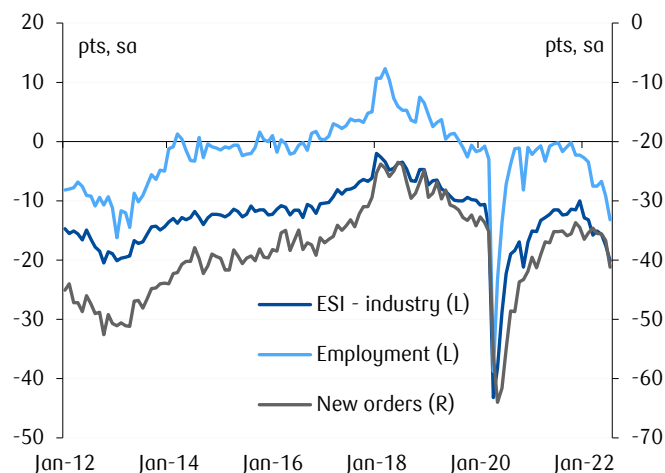


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

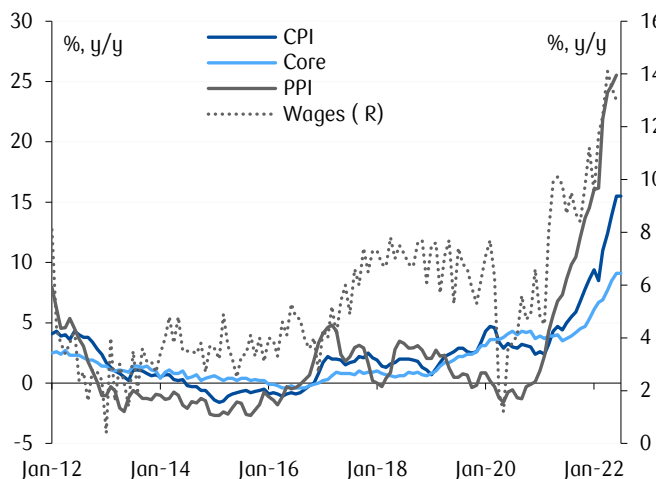
Economic sentiment indicators



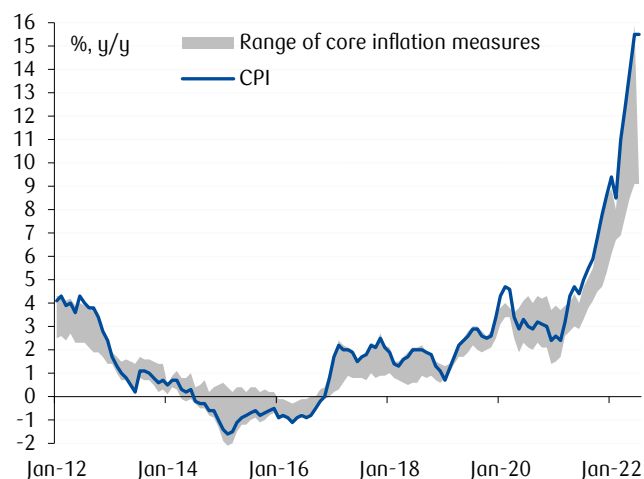
Poland ESI for industry and its components



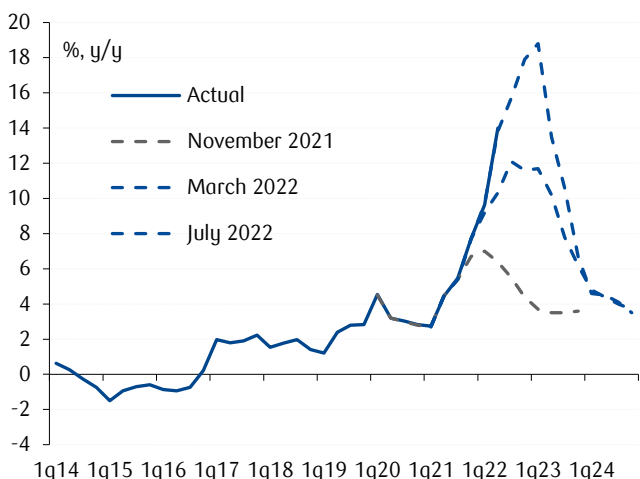
Broad inflation measures



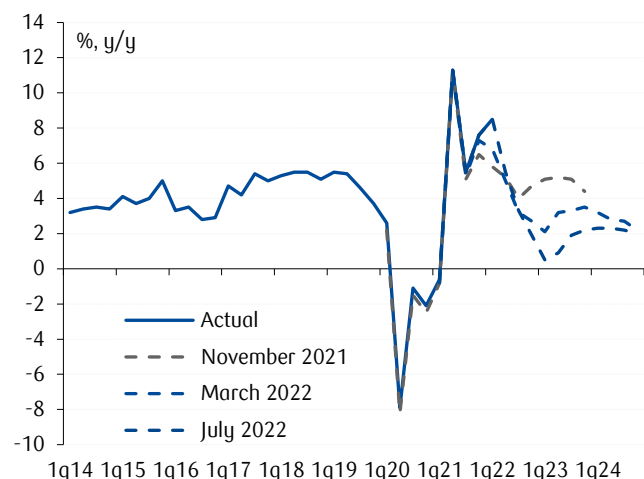
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

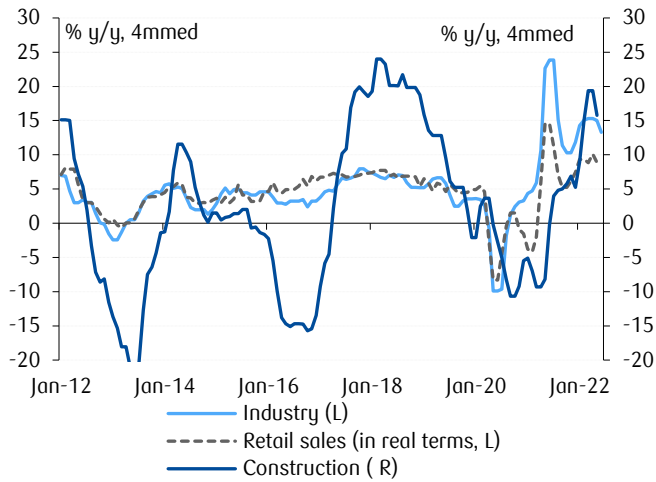


Real GDP growth – NBP projections vs. actual

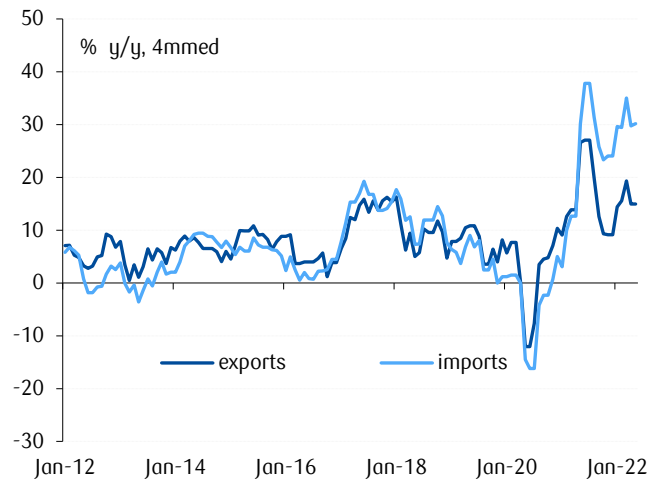


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

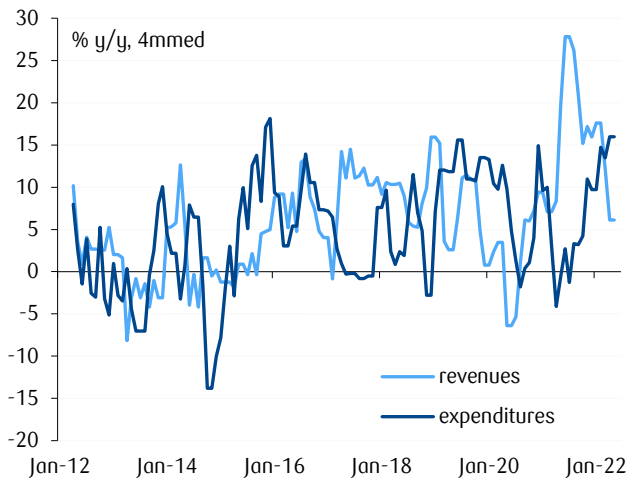
Economic activity indicators



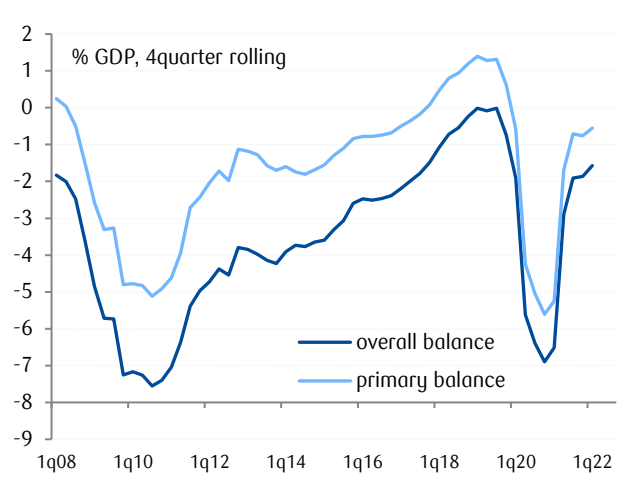
Merchandise trade (in EUR terms)



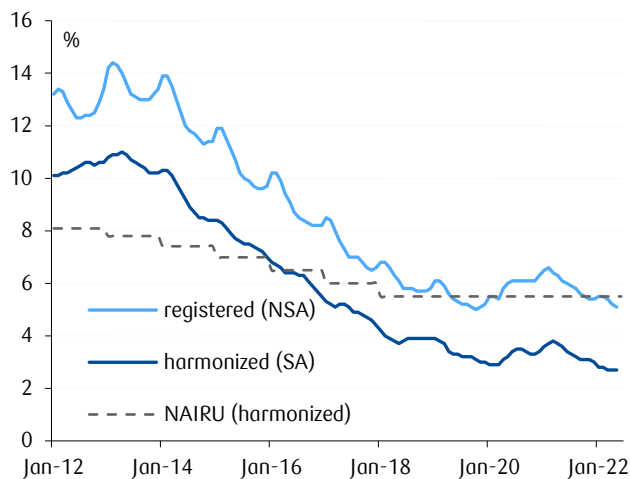
Central government revenues and expenditures*



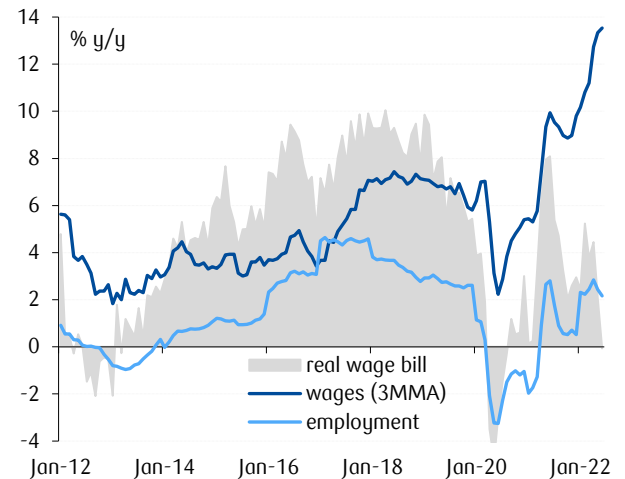
General government balance (ESA2010)



Unemployment rate

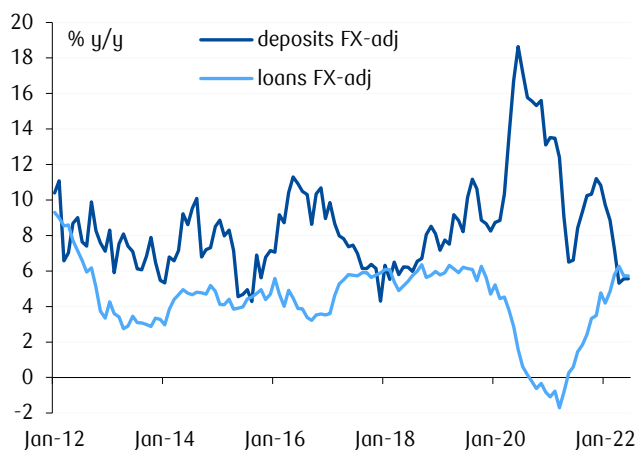


Employment and wages in the enterprise sector

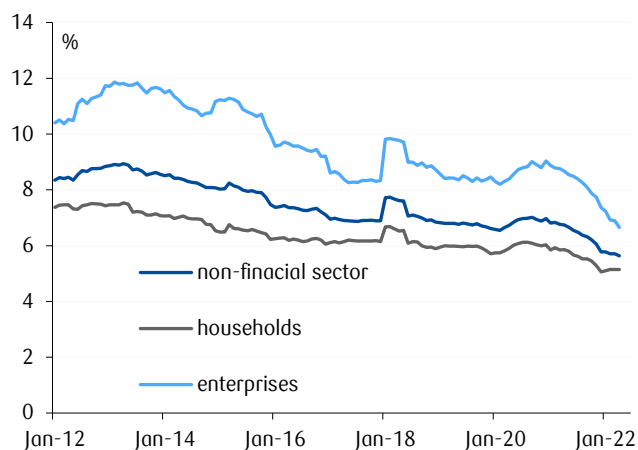


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

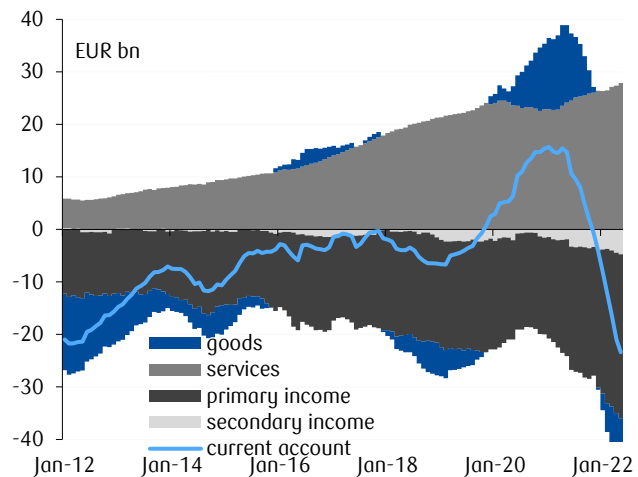
Loans and deposits



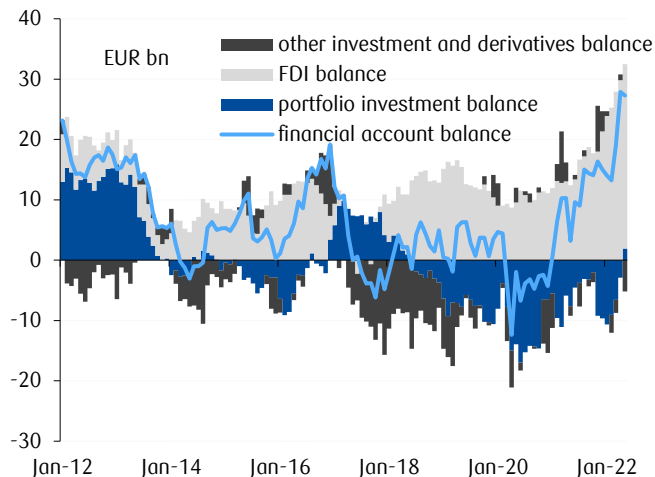
Non-performing loans (NPLs) - by sectors*



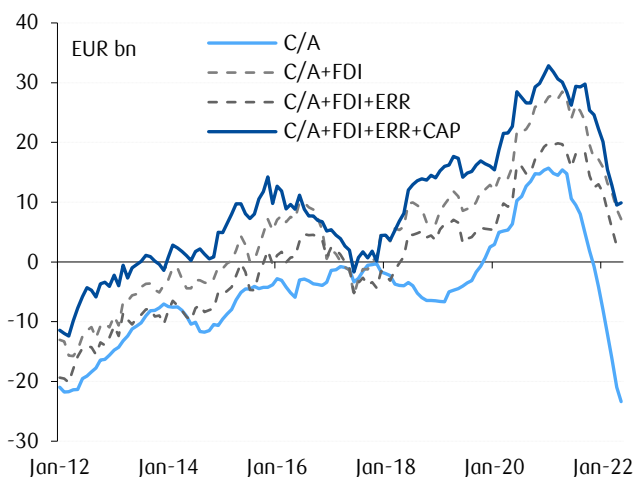
Current account balance



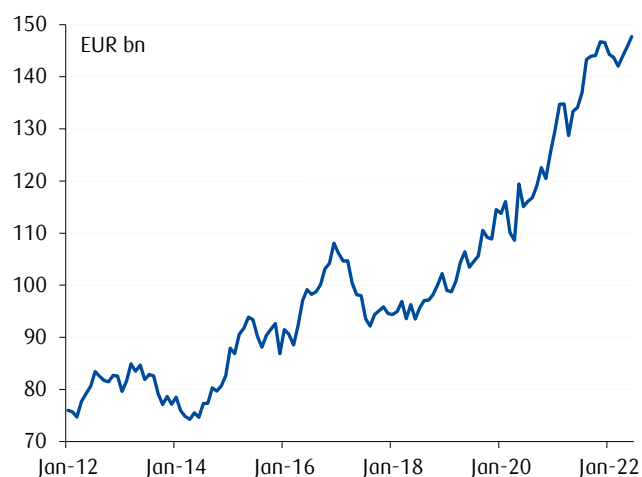
Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



Source: NBP, PKO Bank Polski. *break in series in Jan2018 due to methodological changes.

Previous issues of PKO Macro Weekly:

- [Slowdown just ahead](#) (Jul 22, 2022)
- [Turning point?](#) (Jul 15, 2022)
- [Inflation vs recession dilemma](#) (Jul 8, 2022)
- [NBP rate hikes coming to an end](#) (Jul 1, 2022)
- [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)
- [MPC is slowing down](#) (May 6, 2022)
- [100bps month by month?](#) (Apr 29, 2022)
- [Nothing lasts forever](#) (Apr 22, 2022)
- [Deleveraging](#) (Apr 8, 2022)
- [The economic whirlwinds of war](#) (Apr 1, 2022)
- [Housing sales in gloom, rental market in bloom](#) (Mar 25, 2022)
- [The calm before the storm](#) (Mar 18, 2022)
- [Hawkish governor in front of a hawkish MPC](#) (Mar 11, 2022)
- [#StandWithUkraine](#) (Mar 04, 2022)
- [Russian invasion - repercussions for Poland](#) (Feb 25, 2022)
- [A moment of relief for the MPC](#) (Feb 18, 2022)
- [NBP likes stronger PLN](#) (Feb 11, 2022)
- [Can we afford the Anti-Inflationary Shield?](#) (Feb 4, 2022)
- [GDP growth surged in 4q21 to end 2021 on a high note](#) (Jan 28, 2022)
- [Successful 2021 behind us, challenging 2022 ahead](#) (Jan 21, 2022)
- [Inflation's back, policy fights back](#) (Jan 14, 2022)
- [Housing market boom is getting over](#) (Dec 17, 2021)
- [It's not the last word on the matter](#) (Dec 10, 2021)
- [Monetary policy dilemmas](#) (Dec 3, 2021)
- [It's getting tricky](#) (Nov 26, 2021)
- [Macro picture is getting cloudy](#) (Nov 19, 2021)

The above information has been prepared for informational purposes only and is provided to PKO BP SA Group clients. It is not an offer (as understood under the Civil Law of 23rd April 1964) to buy or sell or the solicitation of an offer to buy or sell any financial instrument and does not constitute the provision of investment, legal or tax advice. It is also not intended to provide a sufficient basis on which to make an investment decision. The above information has been obtained from or based upon sources believed to be reliable, but PKO BP SA Group does not warrant its completeness or accuracy. PKO Bank Polski Group strongly recommends that clients independently evaluate particular investments and accepts no liability for the financial effect of its clients' investment decisions.

The above information is prepared and/or communicated by Powszechna Kasa Oszczędności Bank Polski S.A., registered in the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register under KRS number 0000026438, Tax Identification Number (NIP): 525-000-77-38, REGON: 016298263, share capital 1,250,000,000 PLN.