

Economic Comment

Big hit to wages and employment in April

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Employment in the corporate sector fell by 2.1% y/y and 2.4% m/m in April, while wage growth slowed down to 1.9% y/y from 6.3% y/y in March – both were deeply below expectations (-0.6% y/y and 4.4% y/y, respectively). The momentum of changes is unprecedented in Poland's modern economic history. Clearly, the SARS-CoV-2 epidemic was taking its toll on the labour market much faster than we had anticipated. As some restrictions were eased in May, we are expecting the negative tendencies to milder markedly. Meanwhile, consumer confidence improved somewhat in May.

Labour market hit severely

Employment fell in April by 152.9k versus March and this was the most considerable decline in 20 years. However, bear it in mind that changes in employment do not necessarily reflect only layoffs, but they also take into account cuts in working time, sick and childcare leaves, quarantines. While the latter are temporary and pertinent to the epidemic, the cuts in working time often reflect the businesses' decisions to use government's wage support funds (firm can limit working time and ask for government's partial funding of wages) and this is also a temporary solution.

As the real wage bill in the corporate sector is falling, household's incomes are taking a hit (this is partially mitigated by payments of child care benefits equal to 80% of wage) and this could have a longer effect on consumption patterns.

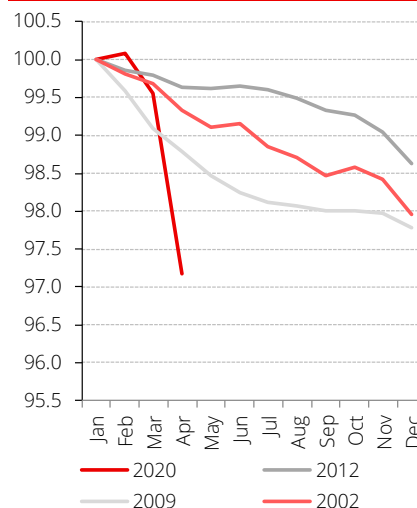
Consumers trying to shake off the initial shock

In May Polish consumer sentiment improved somewhat following a major collapse. The current situation and expectations indexes are still around the lows they reached in the global financial crisis. The financial situation prospects improved much m/m, from an all-time low to the levels from the 2012 slowdown. Despite some improvement, the major purchases index remained highly depressed, below any of the readings since 2004 ex the previous print. Assessment of current economic situation worsened further, own current financial situation was also seen somewhat worse than in April.

The additional COVID-19 related questions reveal that the initial shock subsided quite quickly: in May c10% saw high risk of losing a job or closing a business compared to 19% in April, while the share of people considering it rather unlikely rose by c10pp. The share of respondents seeing the pandemic as a serious threat to their health dropped from c51% to c34%, and 29% still see this as a serious threat to their finances (vs 44% previously).

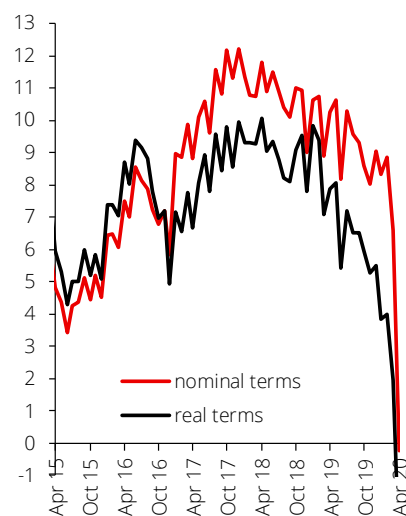
In our view private consumption saw a massive drop in 2Q in y/y terms – the first significant one since comparable data are available (1996).

Employment, January=100, comparison with earlier slowdown periods



Source: GUS, Santander

Wage bill growth, %/y



Source: GUS, Santander

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