Grant Thornton

Salaries and employment – companies' plans for 2024

Results of research conducted by Grant Thornton as part of the annual International Business Report survey

February 2024

Introduction

Employers hopeful for economic improvement

The last year has been an exceptional challenge for companies in Poland. Many of them had to make difficult decisions in the face of the economic slowdown. Operating cost cuts and even employee layoffs were often unavoidable.

However, the beginning of the new year brings a lot of optimism. As indicated by the latest edition of the Grant Thornton survey, employers' plans for 2024 are significantly better than they were a year ago, giving hope for a gradual recovery of the job market. Employers are thinking about hiring new employees and increasing salaries much more often than a year ago. The specter of a deep slowdown that loomed over employers a year ago did not materialize, and today, few companies take such a scenario seriously.

On the following pages we present the results of the 15th edition of our survey conducted among the CEOs of medium and large companies.

Enjoy your reading!

Chapter 1

Survey results

among CEOs of 100 medium and large companies

Employment

How do you expect employment in your company to change in the next 12 months?
The responses of leaders of medium and large companies in Poland

It will increase

2024: ▲ 31%

2023: ▲ 13%

It will decrease

2024: ▼ 13%

2023: ▼ 23%

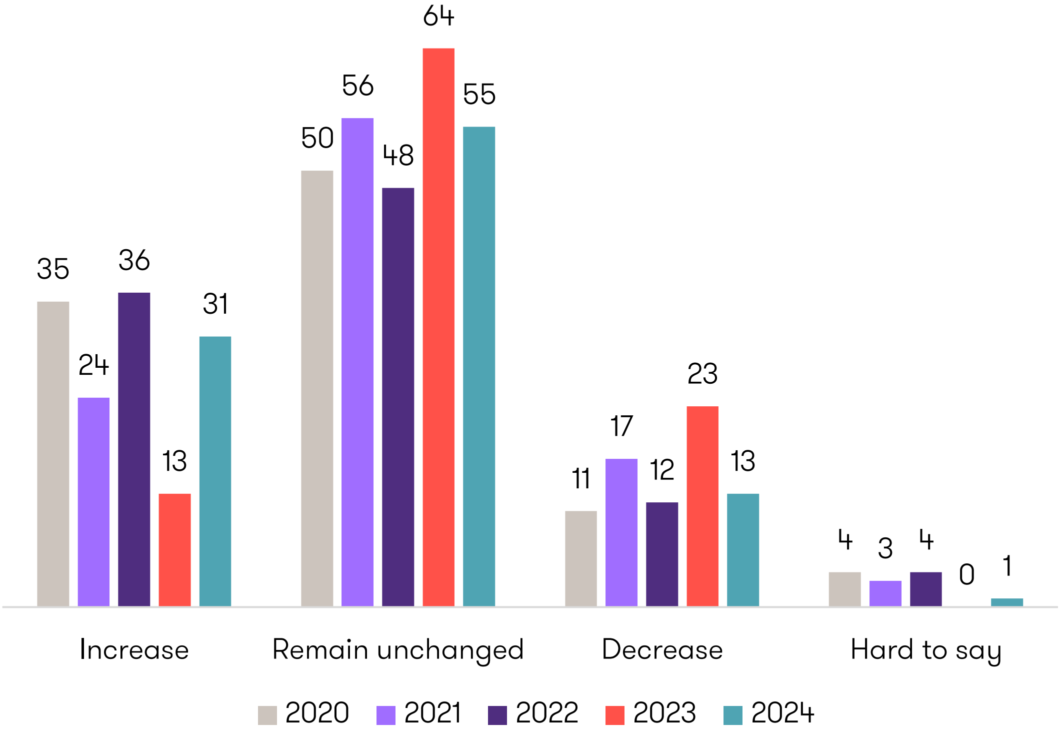
Companies plan to increase employment

31% of medium and large companies plan to increase employment in 2024. This is over fifty percent higher than last year. Meanwhile, the percentage of companies planning layoffs has decreased from 23% to 13%.

Employers in Poland are optimistic about 2024. According to the latest edition of our survey, in the next 12 months, as many as 31% of employers plan to create new job positions. This is a twofold increase compared to 2023 when only 13% of surveyed businesses had plans to increase employment. Meanwhile, the number of medium and large companies' leaders announcing job cuts is currently only 13%. This is a much lower result than last year, when it stood at 23%. On the other hand, the number of companies that neither plan to increase nor reduce employment in the coming year has decreased from 64% to 55%.

Last year's employment forecast by employers was reflected in the economic reality - 2023 brought a clear slowdown in the labor market. According to data from the Central Statistical Office (GUS), employment in enterprises with 10 or more employees decreased by 0.1% year-on-year, compared to a 2.2% increase the previous year. As shown by other studies such as "Job Offers in Poland," employers significantly reduced their demand for workers in 2023. However, employer sentiment for 2024 is optimistic, and this year we can expect a significant thawing of the labor market in Poland.

Chart 1. How do you think the average level of employment will change in your company in the next 12 months? Responses from leaders of medium and large firms, in %.



Source: International Business Report survey for Grant Thornton

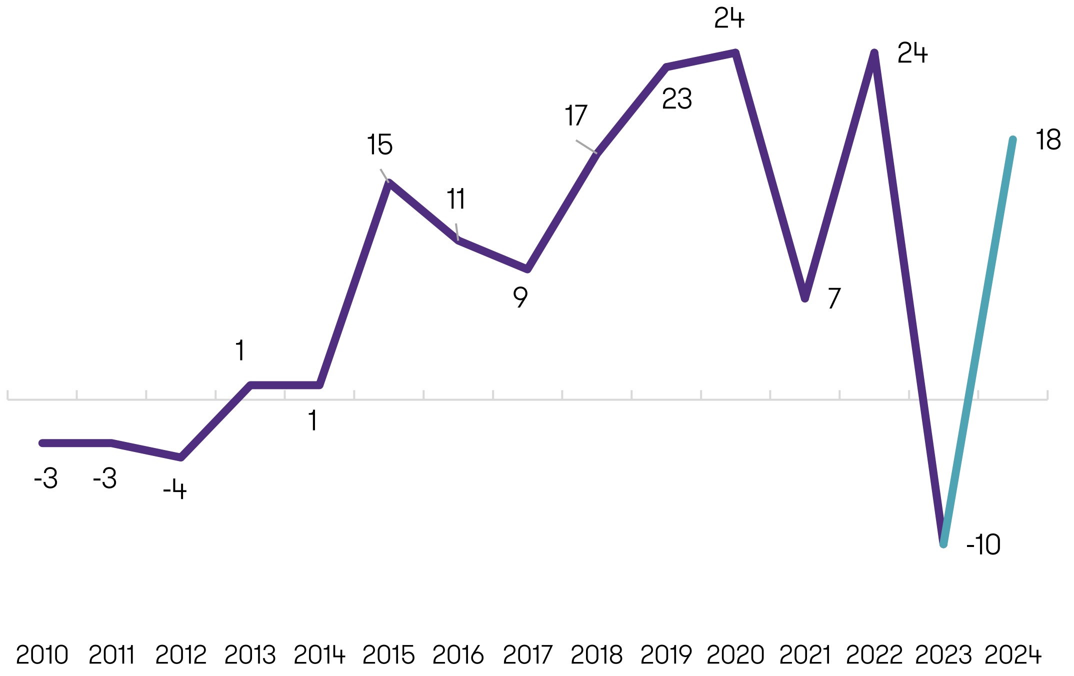
The labor market is recovering

Employers are optimistic about increasing employment in 2024. This is a significant change compared to last year when companies were more inclined to plan layoffs than new hires.

In recent years, many employers have struggled with difficulties arising from economic uncertainty. This turned into pessimistic plans for 2023, which assumed layoffs rather than increased employment. This year we are observing a positive turnaround - employers are mainly considering job creation. The current net employment outlook (the percentage of firms planning to increase employment minus the percentage planning to decrease it) stands at a whopping 18 percentage points. Last year, this indicator reached a record-low of -10 percentage points.

It is worth noting that in our base macroeconomic scenario (see Chapter 2 of this report), we assume an acceleration of employment, but not as strong as suggested by this survey. We expect employment in the business sector to increase by 0.2% in 2024, and the main barrier to such optimistic forecasts will be the lack of 'available' workers in the market. A significant part of employment will need to be achieved through 'poaching' workers from competitors, which will lead to wage increases (with possible surprises upwards), and to a lesser extent, an increase in the overall number of employed individuals.

Chart 2. The percentage of medium and large firms in Poland planning to increase employment in the next 12 months, minus the percentage planning to decrease employment (in percentage points)



Source: International Business Report survey for Grant Thornton

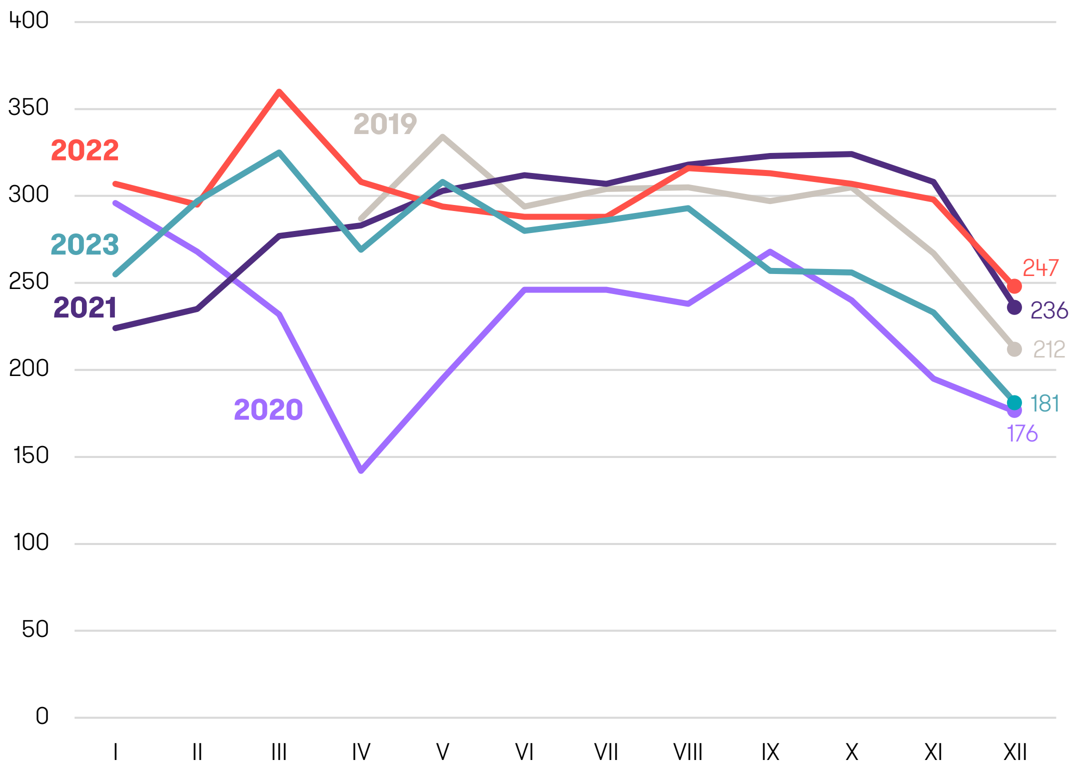
Fewer recruitment last year

The year 2023 was one of the tougher ones for the job market in Poland. The number of job offers remained below the paths from 2022, 2021, and 2019 for many months, only surpassing the path from 2020.

The picture of the job market in 2023 is well complemented by the results of another survey conducted cyclically by Grant Thornton (together with Element company). In the second half of 2023, employers in Poland posted significantly fewer job advertisements online each month compared to similar periods in previous surveyed years – 2022, 2021, and 2019. The number of advertisements from last year only exceeded those registered in 2020, when the job market significantly contracted due to the pandemic and associated economic restrictions. This shows that 2023 brought a clear slowdown in the job market in Poland.

Encouraging and consistent with the survey presented on the previous three pages is the fact that the beginning of 2024 brought a breakthrough in the trend. In January, employers published as many as 244.9 thousand new job advertisements. This is an increase of 36% compared to December. The annual dynamics are still negative (down 4% year-on-year), but they have sharply risen compared to previous months (in December, the decline was as much as 27%). Employers in Poland at the beginning of 2024 are showing optimism not only in declarations but also in actions, clearly increasing the number of recruitments.

Chart 3. The number of new job offers published on the 50 largest recruitment portals (in thousands)



Source: 'Job Offers in Poland' - Grant Thornton, Element

Salaries

How do you expect salaries in your company to change in the next 12 months?
The responses of leaders of medium and large companies in Poland

They will increase at least in line with inflation

2024: ▲ 56%

2023: ▲ 32%

They will decrease

2024: ▼ 0%

2023: ▼ 3%

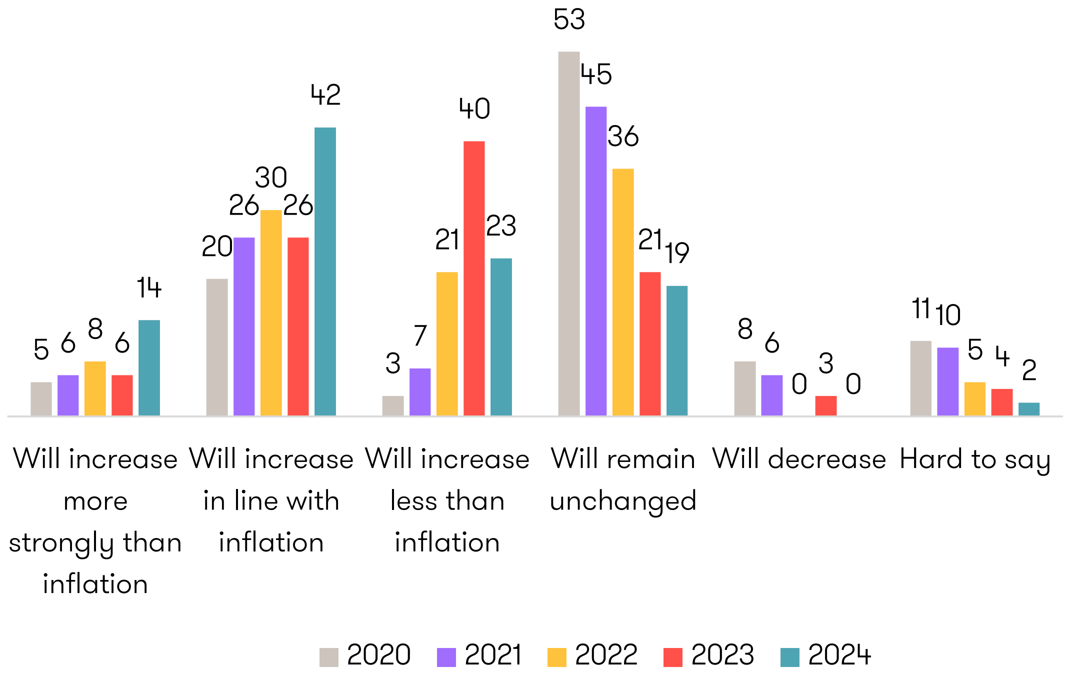
Most companies are raising salaries

Employers are declaring even more frequently than in previous years that they will increase salaries. The majority of responses indicate raises in line with inflation. No surveyed company plans to decrease wages.

The optimistic attitudes of employers for the next 12 months are also reflected in the area of salaries. The percentage of medium and large firms planning to raise wages nominally within the year is currently at 79%, compared to 72% last year and 59% two years ago. The majority of firms (42%) plan to increase salaries in line with the inflation rate, meaning that employees' real incomes will remain unchanged. As much as 14% of employers forecast wage increases stronger than inflation – the highest percentage since the beginning of this study. However, the forecast for 2024 sees a slight decrease in the group of employers who do not plan any salary increases (from 21% to 19%). None of the surveyed companies plans to reduce salaries.

It seems, therefore, that the majority of companies believe they have overcome a difficult period of economic slowdown outlined in the years 2022 and 2023 and will be raising salaries to their employees over the next 12 months, even above inflation, which will remain at an elevated level (5-6% year-on-year on average), but significantly lower than last year (11.6%).

Chart 4. How do you think the average level of salaries in your company will change in the next 12 months? Responses of CEOs of medium and large firms, in %



Source: International Business Report survey for Grant Thornton

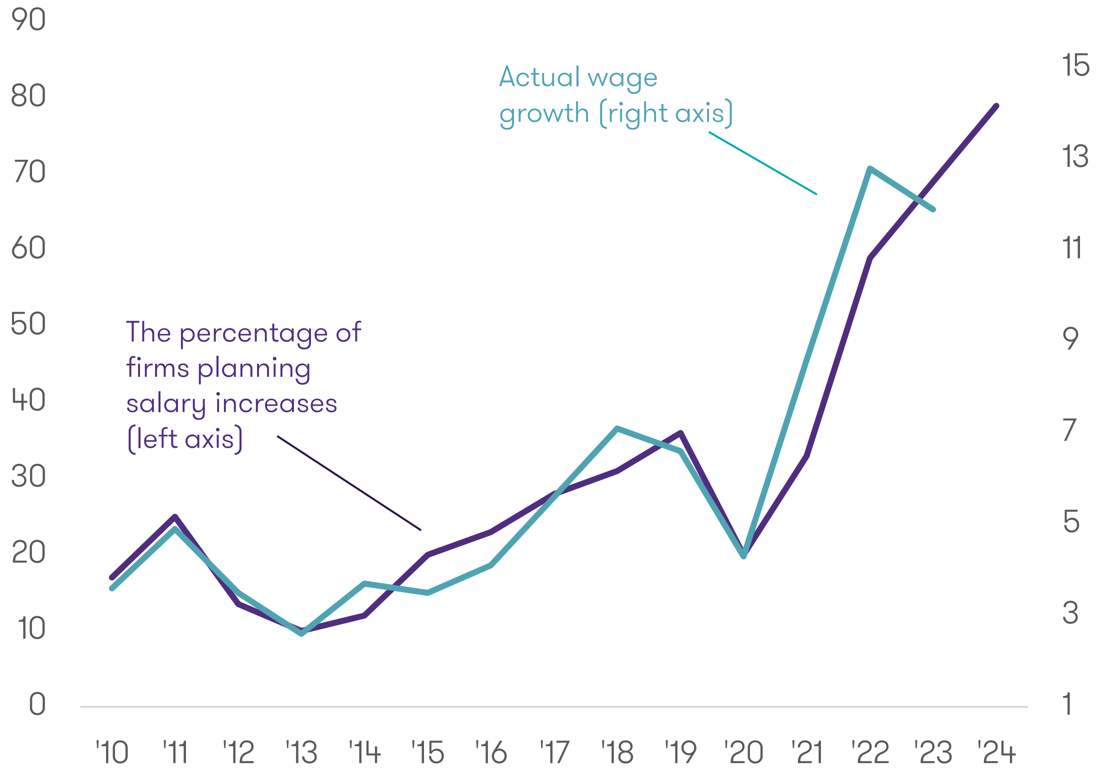
Will salary increases accelerate significantly above 10%?

If employers fulfill their plans, employees may even expect a double-digit increase in salaries. However, a significant part of this increase will be absorbed by inflation.

The indicator we publish, illustrating the tendency of companies to increase employee earnings, has been an effective predictor of actual changes in the economy for many years, i.e., it has correlated quite well with subsequently published official data from the Central Statistical Office on wages in the business sector.

If the situation is similar in 2024, we can expect that the wage dynamics will remain at the high, double-digit level known from 2023. If the strong correlation of our indicator with actual increases were to continue, the nominal increase in wages could reach several percent y/y. We do not assume such high dynamics in our base macroeconomic scenario (we expect nominal wage growth in the business sector to reach 10.2% in 2024 - more on the following pages), but the chart shows how optimistic employers are at the beginning of this year, which is certainly a good omen. If the economy significantly accelerates in the second half of the year and investments pick up noticeably, the tense situation in the labor market will result in an intensification of the 'battle for talent' – especially in export sectors – which may lead to a surprise in the form of double-digit wage dynamics by the end of 2024.

Chart 5. The percentage of medium and large firms planning salary increases, minus the percentage planning decreases (purple line, left axis, in percentage points), and the actual wage dynamics in the business sector (blue line, right axis, year-on-year, in percentage)



Source: International Business Report survey for Grant Thornton

Chapter 2

Macroeconomic scenario for the labor market

Dr Marcin Mrowiec, Chief Economist at Grant Thornton

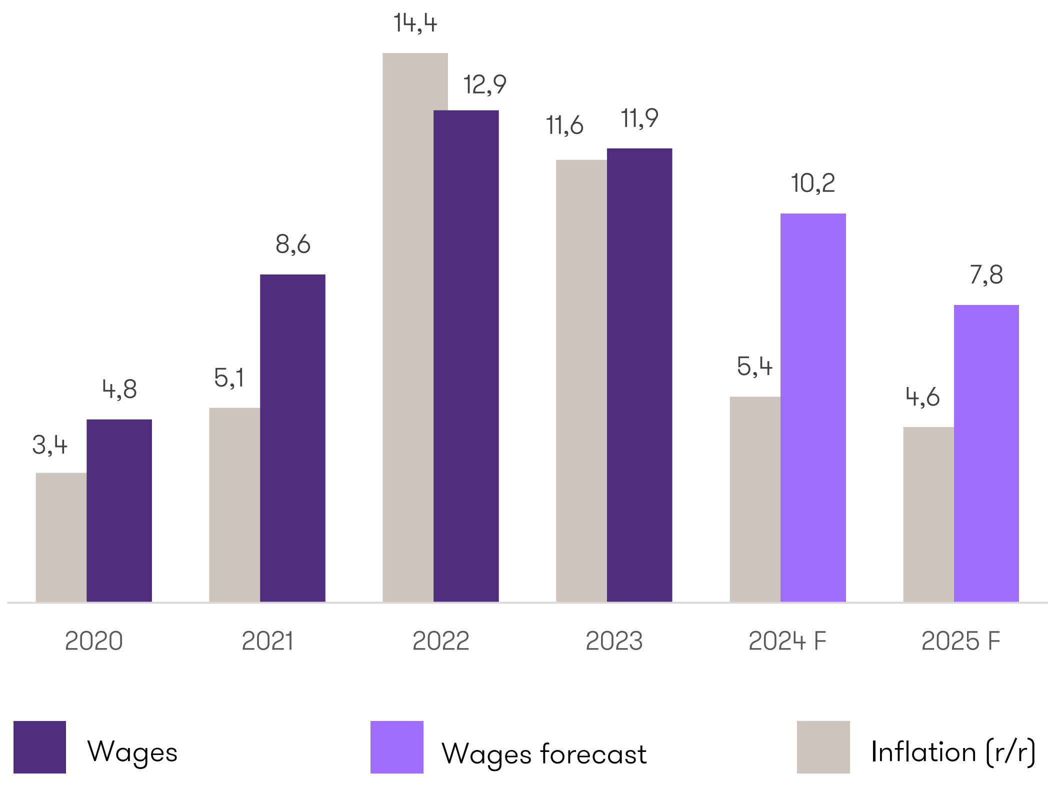
At the threshold of economic revival

The slowdown in the labor market that has been visible for several quarters is temporary. We are facing economic recovery, initially driven by consumption, and later by exports and investments.

If we are not surprised by any 'black swan' events (such as a 'blast of frost from the East' or other extraordinary phenomena), 2024 should be marked by a gradual recovery in the pace of economic growth, initially driven mainly by domestic private consumption, and later by exports and investments.

The tense situation in the labor market combined with high inflation rates results in systematic wage growth – even during a period of weak growth, such as the previous year (with a 0.2% GDP growth), wages in the business sector increased nominally by over 12% year-on-year. What will help real growth in private consumption in 2024 is a significant slowdown in inflation (Grant Thornton's forecast is 5.4% year-on-year on average, compared to 11.6% in 2023), with still relatively strong wage growth. For 2024, we forecast this growth to be above 10% (10.2%). In addition, we will see significant wage increases in the public sector (averaging 20%), a significant increase in the minimum wage, and significant indexation of pensions and retirement benefits. All of this – combined with an improvement in consumer sentiment – will drive consumption growth. In 2024, we forecast that it will increase by 3.7% in real terms, compared to a decline of 1% in 2023.

Chart 6. Annual average wage growth in the business sector, year-on-year, compared to inflation (in %)



Source: Grant Thornton's forecasts

Tensions in the Polish labor market are intensifying

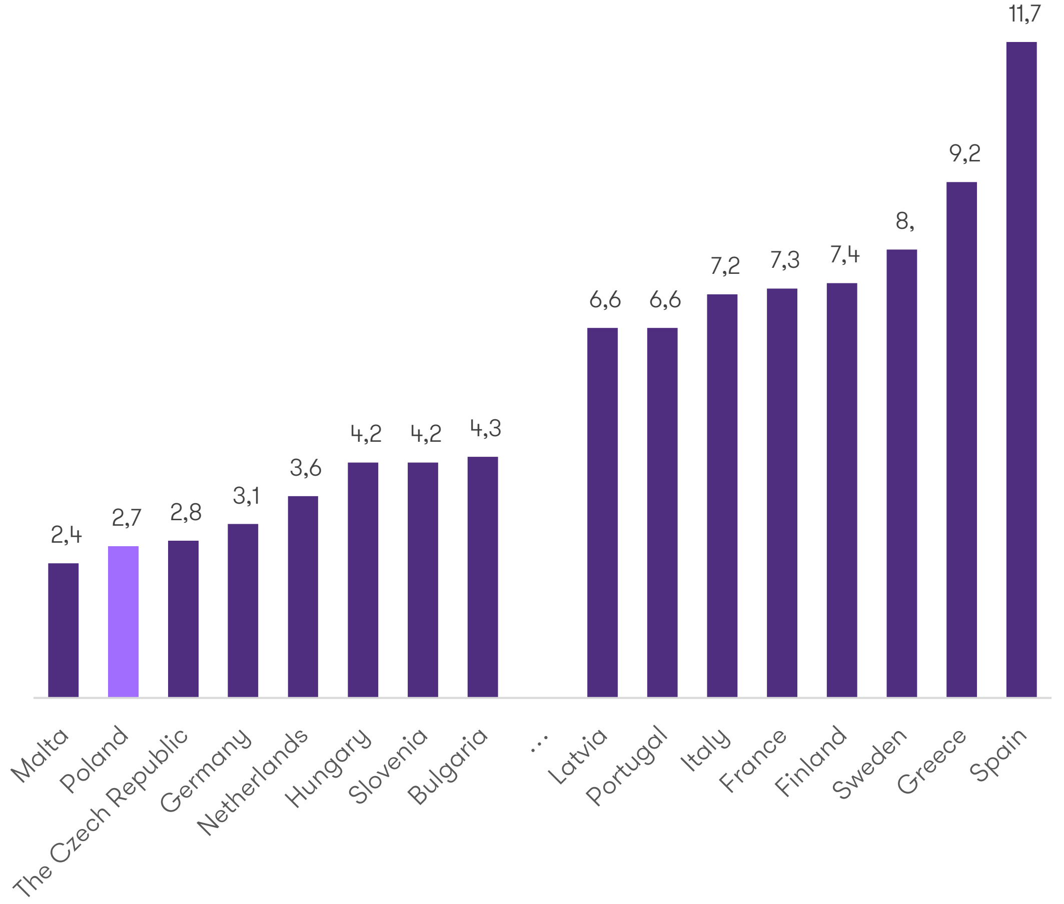
Private consumption, the largest nominal 'engine' of GDP growth, will drive economic growth from the beginning of the year, while in the following quarters, there is hope for a cyclical recovery in the economies of the EU (especially the German economy), which will turn into increased demand from abroad. Investments financed by European funds – from the RRP and cohesion funds – should accelerate significantly, although considering the need to initiate the paperwork associated with this process (preparing appropriate programs, announcing competitions, and their resolution, etc.), the real impact of these funds on the economy will likely be seen until the last quarter of 2024, and their full impact will be seen in 2025.

These processes will overlap with the already very tense situation in the labor market:

a. According to data from December 2023, Poland currently has the second lowest unemployment rate in the EU (after Malta). The Poland, Germany, and Czech Republic region is the area with the lowest unemployment rate in the entire Union.
b. In large urban centers, as well as the most developed provinces in central and western Poland, the unemployment rate (BAEL) is already significantly below the so-called 'natural' unemployment rate. Warsaw and its region: 1.3% unemployment rate, Wrocław - 1.5%, Poznań and its region - 2%, Katowice and its region - 2%.
c. he number of unemployed (just below 500,000 nationwide compared to 1.8 million in 2014) is almost the lowest in history, and if seasonally adjusted numbers were taken into account, it would be the lowest in history.

The above numbers show that we are dealing with a very tense situation in the labor market, one of the most tense in the entire EU. This significantly increases the likelihood of 'upward' surprises in terms of wage dynamics in the business sector.

Chart 7. The unemployment rate in December 2023 (countries with the highest and lowest unemployment rates, in %)



Source: Eurostat

Foreign demand will drive wage increases in Poland

If the accelerating economic growth, both in Poland and in Europe, is superimposed on such a tense situation in the labor market, the result will be wage increases, especially noticeable in export sectors. International companies operating in Poland will be ordering additional production and services in our country. Hourly wage rates in Poland - despite increases in recent years - are still among the lowest in Europe, and compared to Western Europe, they are still rates at slightly more than one-third of theirs. For example, in 2022, the average wage rate in Poland's industry was 12.5 euros per hour, while in Germany and France it was 39.5 and 40.8 euros, respectively, and in Italy it was 30 euros. In the Czech Republic and Slovakia, which are Poland's regional competitors, these rates were also higher than in Poland, at 16.4 and 15.6 euros, respectively. Therefore, companies in Poland will need new employees to handle new orders and investments, and the main way to attract them - given the lack of available specialists in the market - will be to 'poach' them from competitors. To attract employees, companies will have to pay more, hence the forecasted high base dynamics of wage growth (above 10% year-on-year) and hence the high likelihood of 'upward surprises' compared to the base scenario.

What does this mean for employers? Acquiring the right employee within the allocated budget has been a challenge for companies for quite some time now. However, employers must anticipate that the current year (especially its second half) and the year 2025 will be even more difficult and costly. While most of us, mentally shaped during times when unemployment was either very high (the 1990s and the first decade of the 21st century) or high (2010-2015), may not fully grasp the scale of the changes taking place, employers must realize this, wanting their businesses to continue functioning and growing in the coming years. Acquiring and retaining employees will become an increasingly significant challenge, with a growing portion of the attention of management and HR departments devoted to this issue. It will be a strategic topic, on par with product or service development and customer service, and perhaps even more critical, as without the right employees, no other process in the company will work.

The described processes will occur very unevenly (both by industry and territorially), and it is difficult to precisely predict their dynamics. Especially noteworthy are the areas with already low unemployment rates and industries and professions offering the most easily exportable products and services. In central and southwestern Poland, in industries with the strongest export orientation, these processes will be most intensively visible and will progress the fastest.

The geopolitical uncertainty related to the situation in Ukraine calls for much greater caution in formulating economic forecasts for our country. However, if nothing extraordinary happens, if there's no "black swan," and the economy continues its cyclical recovery, in the coming quarters, we will experience an increasingly strong demand for workers, which, given their limited supply, will result in a noticeable acceleration of wages, especially in export sectors. This is good news for employees but poses an increasing challenge for employers.

Dr Marcin Mrowiec
Chief Economist at Grant Thornton

About the study

The study described in this report is commissioned by Grant Thornton and conducted using the CATI method (Computer-Assisted Telephone Interviews) by Biostat company. It is conducted annually among a group of owners and board members of 100 medium and large enterprises. The last edition of the study was conducted in January 2024.

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