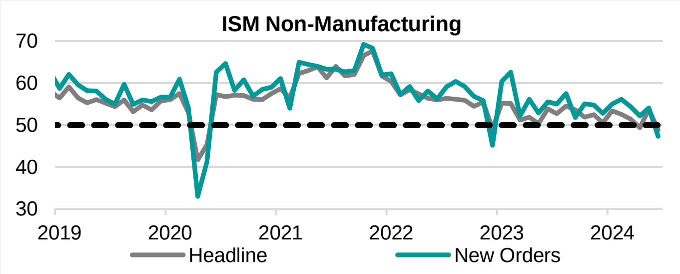
Is it the end of inflow of labour migrants into Poland?

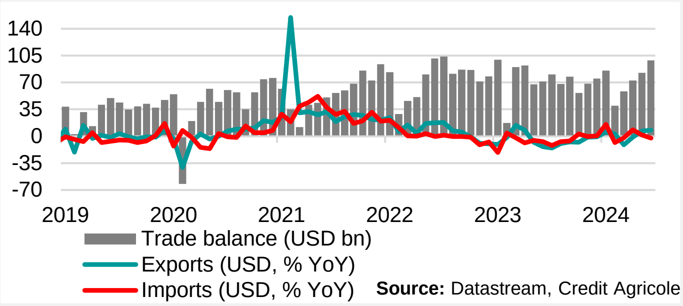
This week

- **Today will see the release of the US non-manufacturing ISM index.** We expect it to have risen to 50.8 pts in July from 48.8 pts in June, in line with the alternating trend of growth and decline in activity seen since March. Although back above the 50-point mark that separates growth from contraction, the index will be still markedly lower than in 2023 and at the beginning of this year. We believe this signals a high probability of an economic slowdown in the US in H2 2024. In our opinion, the release of the ISM index will be neutral for financial markets.



Source: Datastream, Credit Agricole

- **China's foreign trade figures will be released on Wednesday.** We expect China's trade balance to have grown to USD 101.0bn in July from USD 99.1bn in June. We forecast that growth in China's exports picked up to 9.0% YoY in July from 8.6% in June, and growth in imports to 1.8% YoY from -2.3%. Growth in both exports and imports will be contrary to a downturn signalled by July's PMI indices, driven mainly by weak domestic demand in China (see below). The released data will be an important source of information in the context of prospects of a recovery in China's economy, trends in international trade, and an assessment of the probability of China's government to provide additional support. We believe that the data from China will be neutral for financial markets.



Source: Datastream, Credit Agricole

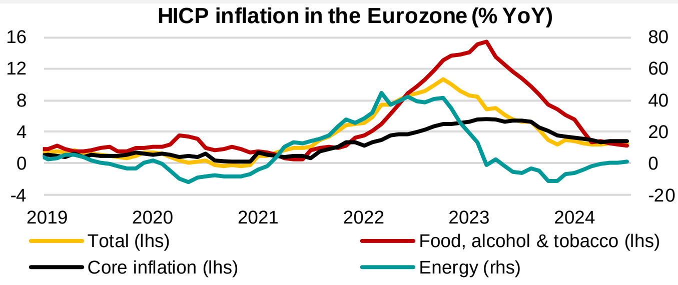
Last week

- **At its last week's meeting, the Fed maintained the federal funds target range unchanged at [5.25%-5.50%], in line with our forecast and consensus.** The press release includes a comment that FOMC members are attentive to the risks to both elements of the Fed's dual mandate (i.e. to maintain stable prices and maximum employment). According to the June statement, Fed members focused mainly on inflation risks. In this way, they probably wanted to draw attention to a deterioration in the US labour market, which may be an argument for starting a monetary policy easing cycle. At the press conference after the meeting, the Fed chair said that time for the first interest rate cut was drawing near. In his opinion, a rate cut could be on the table at the September meeting, but he stressed that no decision had been made yet and all would depend on incoming data. He said he could imagine a scenario in which there would be everywhere from zero cuts to several cuts this year. In the light of last week's US labour market data, much weaker than expected (see below), we believe there is a downside risk to our forecast, which expects the FOMC to go cut rates by25bp in September and by another 25bp in Q4. However, more details of the Fed's monetary policy outlook will be shared during the Jackson Hole Symposium later in August. The market is currently pricing in US interest rate cuts totalling nearly 125bp by the end of 2024.

Some significant data on the US economy was released last week. Non-farm payrolls rose by 114k in July vs. 179k in June (downward revision from 206k), running well below market expectations (175k) and our forecast (190k). The strongest increases in employment were seen in education and health services (+57.0k), construction (+25.0k), and in leisure and hospitality (+23.0k), while declines were recorded in information (-20.0k), other services (-5.0k), and financial activities (-4.0k). Unemployment rose to 4.3% in July from 4.1% in June, running well above market expectations (4.1%). July was the second month in a row with unemployment above the natural unemployment rate estimated by the Fed at 4.0%. It was also the highest unemployment rate recorded since October 2021. The labour force participation rate rose to 62.7% in July from 62.6% in June, but it still remains below the pre-Covid level (63.3%). Hourly wage growth dropped to 3.6% YoY in July from 3.8% in June (downward revision from 3.9%). In our opinion, this shows that wage pressures in the US economy are easing. The markedly-worse-than-expected data on non-farm payrolls in the US resulted in a weakening of the USD against the EUR. Last week also saw the release of business survey results. A fall in confidence in manufacturing was shown by the ISM index: to 46.8 pts in July from 48.5 pts in June, with the index below market expectations (48.8 pts). The fall in the index is accounted for by lower contributions from 4 out of its 5 components (new orders, output, employment, and inventories), partially offset by a higher contributions from delivery times. At the same time, the Conference Board index showed an improvement in consumer confidence: the index rose to 100.3 pts in July from 97.8 pts In June (downward revision from 100.4), with expectations at 99.7. The rise in the index was driven by a higher current situation sub-index, partially offset by a lower expectations sub-index. We see downside risk to our scenario, which expects annualized US GDP growth to slow to 0.5% in Q3 from 2.8% in Q2, and US GDP to grow by 2.0% over the whole of 2024 compared with 2.5% for 2023. At the same time, last week's US labour market data represents a downside risk to our scenario, which expects the Fed to cut interest rates by a total of 50bp by the end of the year. What is more, the data represents an upside risk to our EURUSD exchange rate path (1.05 at the end of the year.) and, consequently, to the USDPLN exchange rate path (4.04 at the end of the year).

According to the flash estimate, QoQ GDP growth in the Eurozone remained flat between Q1 and Q2, at 0.3%, running above market consensus (0.2%) and in line with our forecast. The Eurozone's GDP grew by 0.6% YoY in Q2 vs. 0.4% in Q1. As regards the key Eurozone economies, declines in QoQ GDP growth were recorded in Germany (-0.1% QoQ in Q2 vs. -0.2% in Q1, with our forecast at 0.0%) and in Italy (0.2% vs. 0.3%, in line with our forecast), while GDP growth in France and Spain remained flat between Q1 and Q2 at 0.3% and 0.8%, respectively (with our forecast at 0.2% and 0.4%, respectively). The data is preliminary and it does not include GDP growth breakdown details. However, in the light of incoming business survey results from the Eurozone (see MACROmap of 29/07/2024), we see a downside risk to our scenario, which expects GDP growth in the Eurozone to pick up to 0.5% QoQ, and to 0.8% YoY over the whole of 2024 compared with 0.6% for 2023.

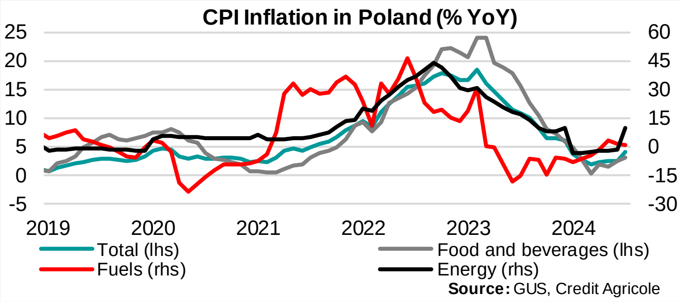
According to the flash estimate, inflation in the Eurozone rose to 2.6% in July from 2.5% in June, running in line with our forecast and above market expectations (2.4%). The rise in inflation was driven by higher growth in energy prices (1.3% vs. 0.2%), partially offset by slower growth in food prices (2.3% YoY in July vs. 2.4% in June). Core inflation remained flat between June and July, at 2.9% YoY. We expect core inflation to fall gradually in the coming months. However, we expect it to be falling very slowly to reach ca. 2% in Q2 2025. Last week's data on inflation in the Eurozone does not change



Source: Datastream, Credit Agricole

our scenario, which expects the ECB to go ahead with two more rate cuts this year of 25bp each (in September and December).

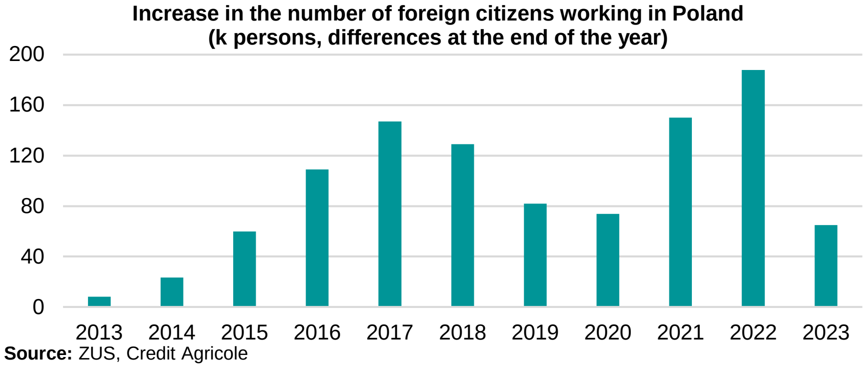
- **In accordance with the flash estimate, CPI inflation in Poland rose to 4.2% YoY in July from 2.6% in June, running slightly below market consensus and our forecast (4.6%).** GUS released partial data on the inflation breakdown, including information about price growth in the 'food and non-alcoholic beverages', 'energy' and 'fuels' categories. The rise in inflation was driven primarily by the unfreezing of gas and electricity prices in July, which entailed higher growth in energy prices (10.0% YoY in July vs. a drop of 1.6% in June). The rise in inflation was also driven by faster growth in the prices of food and non-alcoholic beverages (3.2% YoY in July vs. 2.5% in June) and higher core inflation, which we estimate to have risen to 3.8% YoY from 3.6%. We estimate that month-on-month core prices rose by 0.4%, well above the seasonal pattern (ca. 0.2% in July). The higher MoM growth in core prices is to a large extent accounted for by rises in utility prices (water and wastewater charges). In our opinion, this indicates that inflationary pressures in the Poland's economy remain quite strong. We expect inflation to continue to rise in the coming months. We believe that it is likely that inflation will exceed 5% in October and after a temporary fall will remain above 5% in H1 2025. Consequently, we expect annual average inflation for 2024 to stand at 3.8% compared with 11.6% for 2023, and then to rise to 4.4% in 2025.



- **Poland's manufacturing PMI rose to 47.3 pts in July from 45.0 pts in June, running well above market expectations (44.9 pts) and our forecast (45.3 pts).** Thus, the index reached the highest level since February 2024, but remained below the 50-point mark that separates growth from contraction for 27 months in a row. The rise in the index is accounted for by higher contributions from all its five components: employment, new orders, output, inventories, and delivery times. However, only two of the components (inventories and delivery times) show real growth in activity. The press release accompanying the data suggests that the rises in the components do not actually mean that businesses expect a significant rise in demand in the coming months, but that some of them are buying more in anticipation of price rises (see MACROpulse of 01/08/2024). Such an assessment is supported by a fall in the index for output expected over a 12-moth horizon below its long-term average. Poland's manufacturing PMI data does not change our scenario, which expects Poland's GDP growth to pick up to 2.4% YoY in Q3 from 2.3% in Q2.
- **Business survey results for China's manufacturing were released last week.** China's Caixin PMI fell to 49.8 pts in July from 51.8 in June, running well below market expectations (51.5 pts). Thus, the index fell below the 50-point mark that separates growth from contraction for the first time since October. The fall in the index is accounted for by lower contributions from three out of its five components (output, new orders and inventories) partially offset by a higher delivery times contribution. The contribution from employment remained flat between June and July. What is particularly worth noting about the data is a significant drop in the new orders sub-index, which is well below 50 pts. At the same time, new export orders dropped only marginally, which suggests that it is domestic demand that was the main driver of the drop. According to the press release, the factor behind the weaker domestic demand were budget constraints reported by Chinese businesses. The steepest drop was recorded in demand for investment and input goods, while orders for consumer goods remained relatively stable. The index for output expected over a 12-moth horizon rose in July compared with June, running well above the 50-point mark. This shows that despite temporary difficulties, expectations of the future economic outlook of Chinese businesses remain positive. The NBS PMI dropped, too, to 49.4 pts in July from 49.5 pts in June, running slightly above market expectations (49.3 pts). Last week's business survey results

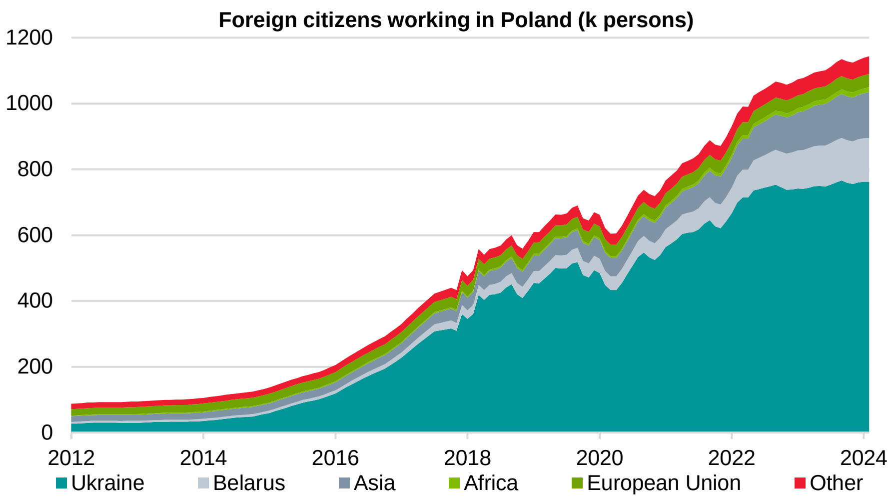
for China's manufacturing represents a downside risk to our forecast, which expects China's GDP growth to slow to 4.6% YoY in Q3 from 4.8 in Q2, and to 4.7% for the whole of 2024 from 5.2% for 2023.

Is it the end of inflow of labour migrants into Poland?



Source: ZUS, Credit Agricole

Over the last 10 years, the number of legally employed foreign citizens in Poland has increased by more than 11 times. At the beginning of 2014, there were approx. 100k of such workers, while now their number has exceeded 1.1m. Particularly noteworthy is the continuing strong annual growth in the number of foreign citizens employed in Poland: in 2023, the figure stood at 65k comparing to a record 188k increase in 2022. Below we will analyse the outlook for the inflow of labour migrants into Poland.

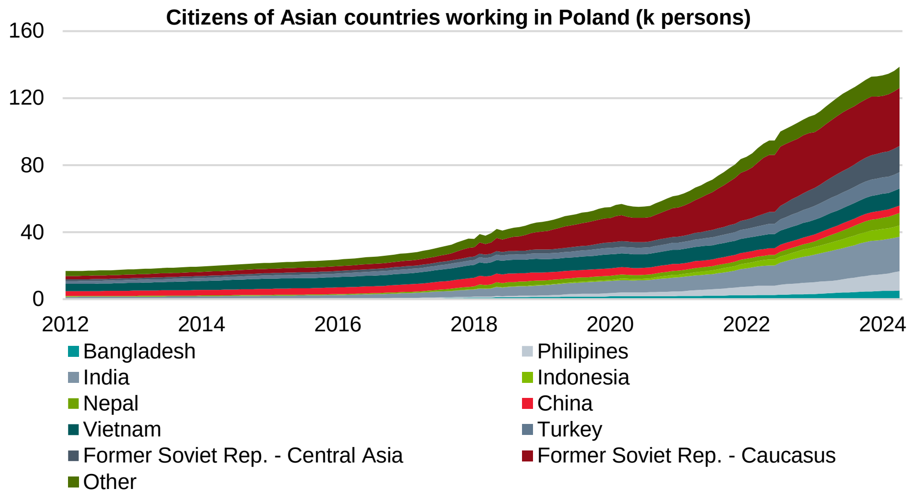


Source: ZUS, Credit Agricole

The number of labour migrants in Poland increased in 2014, mainly due to elevated geopolitical tensions in Ukraine. Consequently, it was Ukraine that initially was the country of origin of most incoming labour migrants, with no significant changes in figures for workers from other countries. However, from 2018 onwards, we could see a gradual increase in the number of labour migrants from other countries as well, driven by a growing demand for labour force amidst the economic recovery in Poland. In 2018, the companies also reported increasing problems with the availability of skilled labour, which also explained a growing interest in hiring workforce from abroad.

After a transitional decline in the number of foreign workers in Poland during the early phase of the pandemic, the scale of inflow of labour migrants into the country increased again in the following years. However, what is particularly noteworthy here is the changes in the structure of the inflow. On the one hand, the outbreak of war in Ukraine resulted in an inflow of migrants, many of them finding jobs in Poland. According to the NBP research, the share of refugees from Ukraine who found jobs in Poland was 62% as of July 2023, which was the best result among the OECD countries. On the other hand, the mobilisation law curbed the inflow of male workers from Ukraine and caused some of the Ukrainians employed in Poland to come back to their native country. For this reason, the growth in the number of

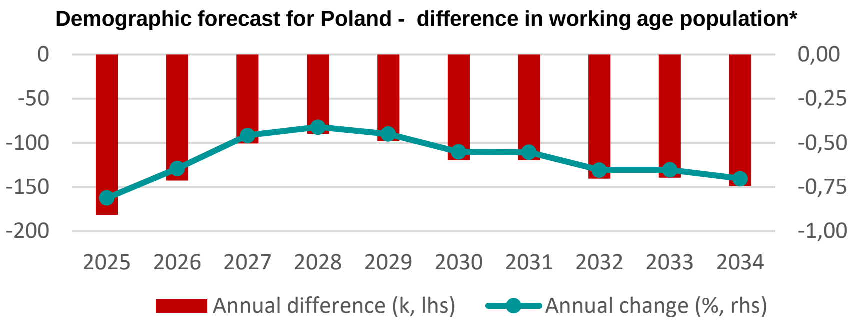
Ukrainian workers has recently slowed markedly. At the same time, we could see the increase in the number of workers coming from Belarus given the political situation in that country over the last couple of years. Consequently, the number of Belarussians employed in Poland has increased by 90k since August 2020 (the date when the wave of protests began in Belarus), and currently stands at 133k.



Source: ZUS, Credit Agricole

Also noteworthy is the increasing inflow of employees from more remote countries, particularly Asian ones. With 26k employees, Georgia has the biggest share in that group of employees. Like in the case of Ukraine and Belarus, such high share can be linked to the political situation in Georgia, but also to the fact that Georgian citizens are not required to have visas in Poland. As regards the number of workers, Georgia is followed by India (21k individuals), the Philippines (11k) and Vietnam (10k).

Poland is currently working on its new migration strategy for 2025-2030. According to Deputy Minister M. Duszczyk, who is responsible for the migration policy, the number of migrants is quickly getting closer to Poland's integration capacity limits understood both as the percentage of migrants the society is capable of absorbing without generating social tensions and infrastructural challenges connected, among others, with ensuring that the migrants can enjoy adequate living conditions and medical care, and providing education for their children. A white paper on Poland's visa system published last May by the Polish Ministry of Internal Affairs and Administration provided an important signal on the government's intentions with regard to actions that they wish to take. According to the authors, the lack of adequate legal and systemic solutions is the main problem of the Polish migration policy, which caused the country to lose control over the movement of people amidst pressure from employers and academic scholars. Measures proposed in the paper are focused on increasing the level of control the government institutions have over migration, improving the selectiveness of control, and ensuring that permits are issued adequately to meet the actual needs of the Polish economy. The Ministry of Internal Affairs and Administration intends to publish the final draft of its migration strategy in December 2024, while new legal acts based on that draft are planned to be developed in H1 2025.



Source: Eurostat, Credit Agricole
*18-59 for women, 18-64 for men

Bearing in mind that the potential for the inflow of migrants from the similar cultural realm has been used nearly in full so far and that the Polish government will probably tighten its migration policy, we believe that there is not much room for the inflow of foreign workers into Poland left anymore. At the same time, the demographic situation in Poland will keep on deteriorating in the years to come. In accordance with Eurostat projections, the working age population will shrink by nearly 1.4m over the next decade, which will generate wage and productivity pressure. An ability to compensate the loss

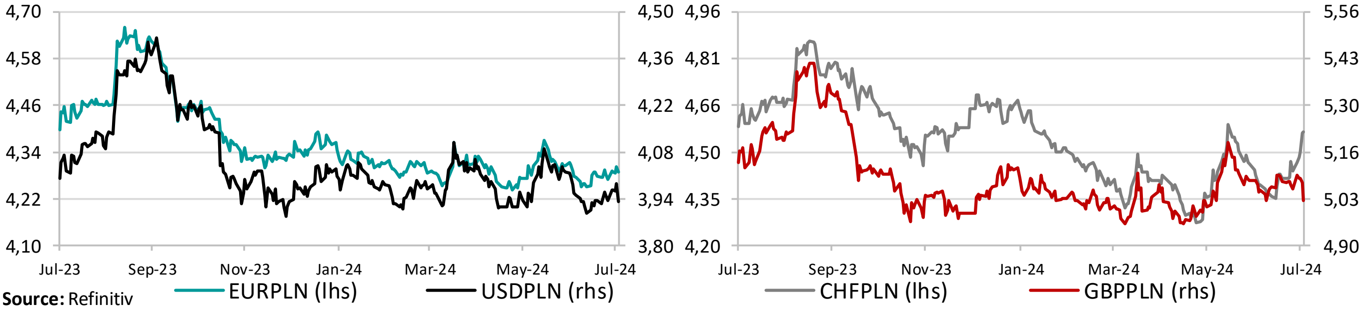
Source: Eurostat, Credit Agricole

*Purchasing Power Standard - a notional currency unit used to compare wealth levels between countries that takes into account price differences between countries.

of workforce with the increase in productivity will be of key importance for the economic growth prospects. The data showing the differences in terms of the added value per single employee between Poland and the Eurozone indicates that there is a significant room for improvement in this area. For example, the added value per employee in the Polish manufacturing sector still represents only 61% of the added value generated in the Eurozone (vs. 49% in 2004). It is worth noting, though, that there are categories such as "professional, scientific and technical activities and administration and support services" or "wholesale and retail trade, transportation, accommodation and food service activities", where the added value per employee is already higher than in the Eurozone. We believe that the inflow of direct foreign investments, which we expect to increase, will be an important factor boosting productivity in Poland in a long-term perspective. What will be helpful here is that Poland figures among the most attractive countries for foreign direct investments and nearshoring (i.e. shortening the supply chains to improve their stability), which has been confirmed, among others, in Reuters and Maersk rankings. Furthermore, our analyses show that the development of artificial intelligence will be an important factor boosting productivity in Poland (see MACROmaps of 12/02/2024 and 19/02/2024). Therefore, we believe that reduced inflow of labour migrants will be compensated for to a significant extent by the increase in productivity, which will mitigate the negative impact of this reduced inflow on Poland's economic growth prospects.

US labour market data conducive to USD depreciation

FX rates



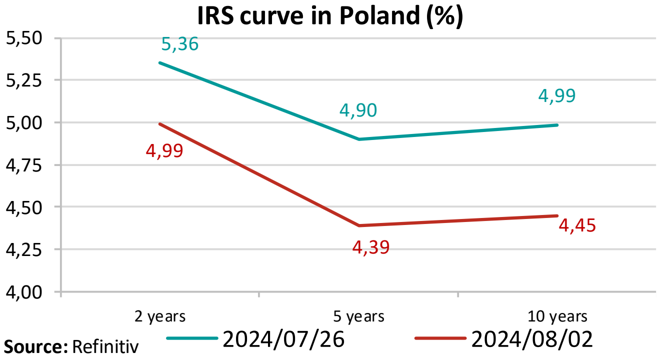
Source: Refinitiv

Last week, the EURPLN rate increased to 4.2889 (the PLN weakened by 0.2%). Throughout last week, the EURPLN exchange rate followed an upward trend as the EURUSD was slightly declining. Weaker-than-expected US labour market data released on Friday resulted in a correction and appreciation of the EUR against the USD.

We expect other publications from the global economy planned for this week to be neutral for the PLN.

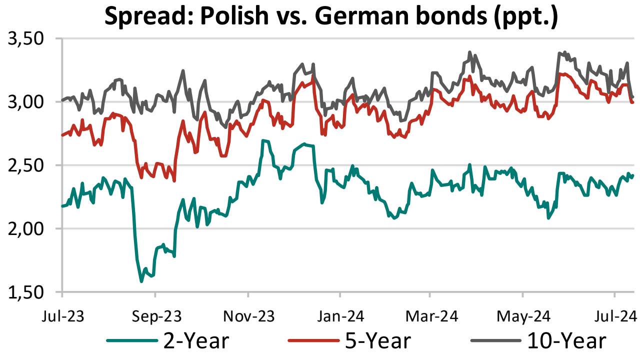
IRS rates decline strongly following the core markets

IRS curve in Poland (%)



Source: Refinitiv

Spread: Polish vs. German bonds (ppt.)



Last week the 2-year IRS rates decreased to 4.99 (down by 37bp), 5-year rates to 4.39 (down by 51bp), and 10-year rates to 4.45 (down by 54bp). IRS rates kept on declining across the curve early last week following the core markets, in line with the trends observed over the last couple of weeks (see MACROmap of 29/07/2024). Yields in core markets are driven down by the growing expectations concerning Fed's interest rate cuts, which were additionally enhanced by the worse-than-expected data on the US labour market.

We believe that publications from the global economy planned for this week will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24
NBP reference rate (%)	6,75	6,75	6,00	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	**5,75**
EURPLN*	4,40	4,47	4,63	4,45	4,35	4,33	4,32	4,31	4,29	4,33	4,27	4,30	4,29	**4,29**
USDPLN*	4,00	4,12	4,37	4,21	4,00	3,93	4,00	3,99	3,97	4,06	3,94	4,02	3,96	**3,96**
CHFPLN*	4,59	4,66	4,78	4,62	4,56	4,64	4,64	4,52	4,40	4,41	4,36	4,47	4,50	**4,51**
CPI inflation (% YoY)	10,8	10,1	8,2	6,6	6,6	6,2	3,7	2,8	2,0	2,4	2,5	2,6	**4,2**	
Core inflation (% YoY)	10,6	10,0	8,4	8,0	7,3	6,9	6,2	5,4	4,6	4,1	3,8	3,6	**3,8**	
Industrial production (% YoY)	-2,7	-2,2	-3,3	2,0	-0,3	-3,5	3,0	3,2	-5,7	7,8	-1,6	0,3	**7,3**	
PPI inflation (% YoY)	-2,1	-2,9	-2,7	-4,2	-5,1	-6,9	-10,6	-10,0	-9,9	-8,5	-7,0	-6,1	**-5,1**	
Retail sales (% YoY)	2,1	3,1	3,6	4,8	2,6	0,5	4,6	6,7	6,0	4,3	5,4	4,7	**6,0**	
Corporate sector wages (% YoY)	10,4	11,9	10,3	12,8	11,8	9,6	12,8	12,9	12,0	11,3	11,4	11,0	**10,8**	
Employment (% YoY)	0,1	0,0	0,0	-0,1	-0,2	-0,1	-0,2	-0,2	-0,2	-0,4	-0,5	-0,4	**-0,5**	
Unemployment rate* (%)	5,0	5,0	5,0	5,0	5,0	5,1	5,4	5,4	5,3	5,1	5,0	4,9	**4,8**	
Current account (M EUR)	55	587	1184	2240	1196	165	1584	1722	1357	-13	-63	**-96**		
Exports (% YoY EUR)	0,2	-2,1	-4,0	2,1	-2,0	-6,2	-3,3	1,8	-8,5	6,5	-7,6	**-7,8**		
Imports (% YoY EUR)	-6,4	-10,9	-13,8	-7,1	-7,2	-10,6	-4,6	1,7	-7,6	7,0	-2,4	**-1,6**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator	2024				2025				2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	2,0	2,3	2,4	2,5	3,1	3,3	3,4	3,6	0,2	2,3	3,5
Private consumption (% YoY)	4,6	4,0	3,5	3,2	2,5	2,1	2,0	1,8	-1,0	3,8	2,2
Gross fixed capital formation (% YoY)	-1,8	-3,9	-1,9	-1,1	6,7	8,7	9,7	10,5	13,1	-2,0	9,1
Export - constant prices (% YoY)	0,5	1,5	1,7	4,5	5,3	5,7	4,3	7,1	3,4	2,0	5,6
Import - constant prices (% YoY)	-0,1	3,9	4,3	4,7	5,1	5,3	4,3	3,9	-2,0	3,2	4,7
GDP growth contributions: Private consumption (pp)	2,7	2,3	2,1	1,6	1,5	1,2	1,2	0,9	-0,5	2,2	1,3
GDP growth contributions: Investments (pp)	-0,2	-0,6	-0,3	-0,3	0,8	1,3	1,6	2,5	2,1	-0,3	1,5
GDP growth contributions: Net exports (pp)	0,4	-1,2	-1,2	0,1	0,4	0,6	0,2	1,9	3,3	-0,5	0,8
Current account (% of GDP)***	1,5	1,3	1,1	0,8	0,8	0,7	0,6	0,6	1,6	0,8	0,6
Unemployment rate (%)**	5,3	4,9	4,8	4,9	5,2	4,8	4,7	4,8	5,1	4,9	4,8
Non-agricultural employment (% YoY)	-0,2	-0,2	-0,2	-0,3	-0,4	-0,5	-0,5	-0,5	0,8	-0,2	-0,5
Wages in national economy (% YoY)	14,4	15,5	14,8	15,0	10,1	8,3	7,1	6,5	12,8	14,9	8,0
CPI Inflation (% YoY)*	2,8	2,5	4,6	5,1	5,5	5,1	3,5	3,4	11,6	3,8	4,4
Wibor 3M (%)**	5,88	5,85	5,88	5,88	5,88	5,63	5,51	5,38	5,88	5,88	5,38
NBP reference rate (%)**	5,75	5,75	5,75	5,75	5,75	5,75	5,50	5,25	5,75	5,75	5,25
EURPLN**	4,29	4,30	4,26	4,24	4,23	4,22	4,21	4,20	4,33	4,24	4,20
USDPLN**	3,97	4,02	4,02	4,04	3,95	3,87	3,83	3,75	3,93	4,04	3,75

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST* CA	FORECAST* CONSENSUS**
		Monday 08/05/2024				
10:00	Eurozone	Services PMI (pts)	Jul	51,9	51,9	51,9
10:00	Eurozone	Final Composite PMI (pts)	Jul	50,1	50,1	50,1
10:30	Eurozone	Sentix Index (pts)	Aug	-7,3		-5,0
11:00	Eurozone	PPI (% YoY)	Jun	-4,2		-3,3
16:00	USA	ISM Non-Manufacturing Index (pts)	Jul	48,8	50,8	51,0
		Tuesday 08/06/2024				
8:00	Germany	New industrial orders (% MoM)	Jun	-1,6		1,0
11:00	Eurozone	Retail sales (% MoM)	Jun	0,1		0,1
		Wednesday 08/07/2024				
8:00	Germany	Industrial production (% MoM)	Jun	-2,5		1,0
8:00	Germany	Trade balance (bn EUR)	Jun	24,9		23,5
	China	Trade balance (bn USD)	Jul	99,1		98,0
		Thursday 08/08/2024				
14:30	USA	Initial jobless claims (k)	w/e	269		
16:00	USA	Wholesale inventories (% MoM)	Jun	0,2		
16:00	USA	Wholesale sales (% MoM)	Jun	0,4		
		Friday 08/09/2024				
3:30	China	PPI (% YoY)	Jul	-0,8		-0,9
3:30	China	CPI (% YoY)	Jul	0,2		0,4

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank
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