showCASE
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CASE – Centrum Analiz Społeczno-Ekonomicznych
CASE – Center for Social and Economic Research

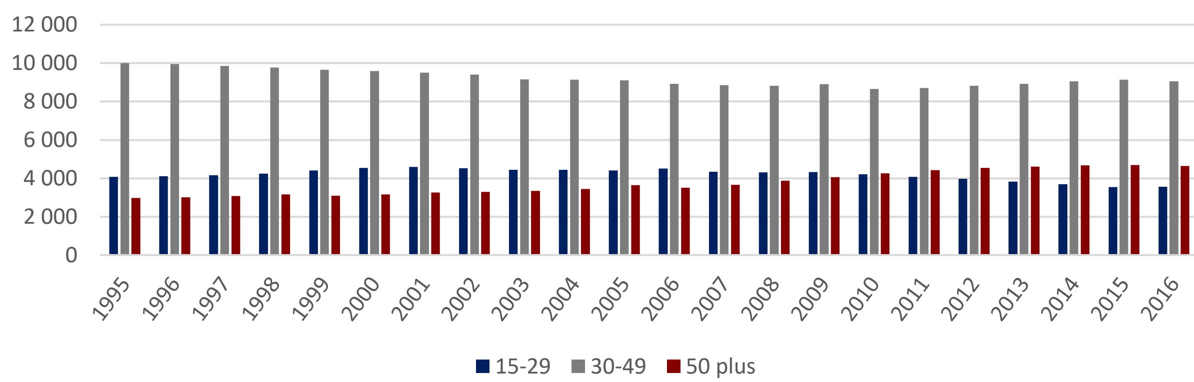
Overview: In this week's showCASE, our experts discuss the growing interest of companies in older employees in Poland. Our guest author Christopher Dembik also analyzes the persistently low inflation in the European Union and provides an overview of its causes.

Increasing Demand for Workers Aged 50+. Valued Workforce or Forced Change?

By: *Izabela Styczyńska, Vice-President of CASE Management Board*

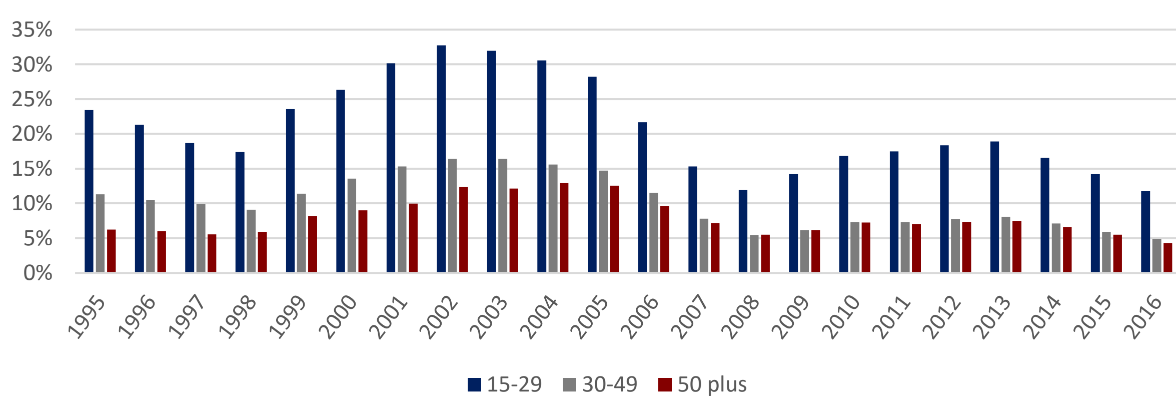
During last two years, the Polish labor market has experienced a dynamic shift towards a low unemployment rate, higher-than-average demand for work, and slow increases in wages. At the same time, the continued outflow of workers from Poland to other European countries is perceived as an obstacle to hiring suitable workers, shrinking the labor force even more. In this environment, with no real hope for fast demographic change, Polish employers are likely to increase their demand for workers aged 50+.

Figure 1. Labour force participation in Poland (in thousands), by age



Source: Bank Danych, GUS.

Figure 2. Unemployment rate (%), by age



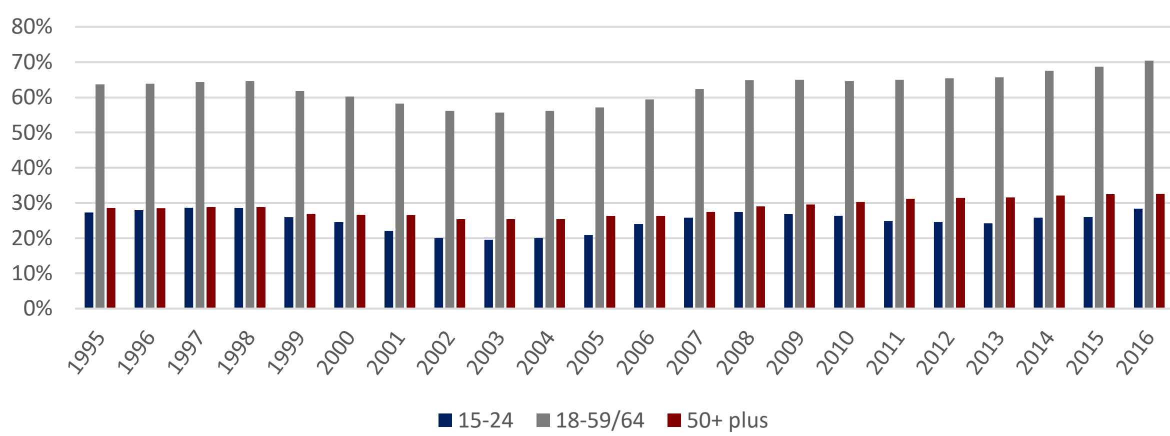
Source: Own calculations based on Bank Danych, GUS.

Nevertheless, when we look at the labor market statistics we observe that the phenomenon of increased employment of workers aged 50+ is nothing new in Poland, but as Figure 1 shows, this process that has been observed since 2004. The number of people aged 50+ remaining active in the labor market has been slowly and steadily growing since 2000, and their unemployment rate (as shown in Figure 2) started steadily decreasing in 2004 (after reaching a peak of 13% in that year). By 2016 the unemployment rate for those over 50 stood at 4%, in tandem with an increase in their employment rate (reaching 32% in 2016).

Source: tec_estromberg, Flicr (CC BY 2.0)

When comparing these trends with the labor market situation of other age groups, we observe that the working population aged 30-49 experienced the exactly same path since 2004, with an increase in employment and a decrease in unemployment. Indeed, amongst all demographic groups, only young people aged 15-24/29 can be perceived as the most disadvantaged group, where the number of active participants in the labor market has steadily decreased since 2006 and unemployment rates remains the highest across all groups. Although their employment rates started increasing since 2014 (perhaps due to the Youth Guarantee Program), the number of young people in employment in absolute terms remains relatively unchanged (around 3 million).

Figure 3. Employment rate, by age



Source: Own calculations based on Bank Danych, GUS.

These trends raise a valid question, namely why might Polish employers choose to employ people aged 50+ rather than the younger generation? A couple of explanations might be considered in this respect.

First, statistics on labor force participation (Figure 1) show that the number of young people active in the labor market has been shrinking more dynamically since 2011, while the number of active population aged 50+ has been steadily increasing at the same time. Since 2011 the number of people aged 50+ willing to undertake employment has been far exceeding the corresponding number of young people, and the gap has been steadily growing since then. The changing structure of people available on the labor market naturally forces employers to select their employees from the group of people present and willing to work. With the Polish economy showing signs of renewed growth, employment of people aged 50+ might actually increase as youth are unable to fill the gap.

Secondly, we might argue that the positive perception of a worker aged 50+ has increased as a medium-term result of European active ageing policies. In 2012 the European Commission announced the European Year of Active Ageing, bringing the topic of employability of the older population and their social and economic inclusion to Poland for the first time. New initiatives were introduced at the national and local level and special programs supporting the activity of people 50+ were created at the Ministerial level. As a follow up, the Polish government transformed its *ad hoc* initiatives into regular programs under the Department of Senior Policy at the Ministry of Family, Labor and Social Affairs. Although short-term and medium-term statistics from this period did not show any significant positive impact of the program on the employability of people aged 50+, we might argue that the employers' perception of the older generation has improved and their recent willingness to hire has increased.

Finally, we should also note that the perception of young people among employers might also be suffering, especially due to the stereotype of 'Millennials' in literature and media. Recent qualitative studies show that 21% of young workers have left their job in the last year to do something else, an exit rate three times higher than the rest of the population. In addition, Millennials are thought of uniformly as having high self-esteem, excessive expectations, and strong aversion to criticism, traits which are difficult to blend into a team atmosphere. Perhaps due to this, the younger generation is often perceived as non-loyal workers, treating their bosses as peer employees rather than as above them in the hierarchy. Although these traits are thus far not supported by hard data, these opinions and stereotypes might significantly affect employers' perception of this cohort and decisions of their employment.

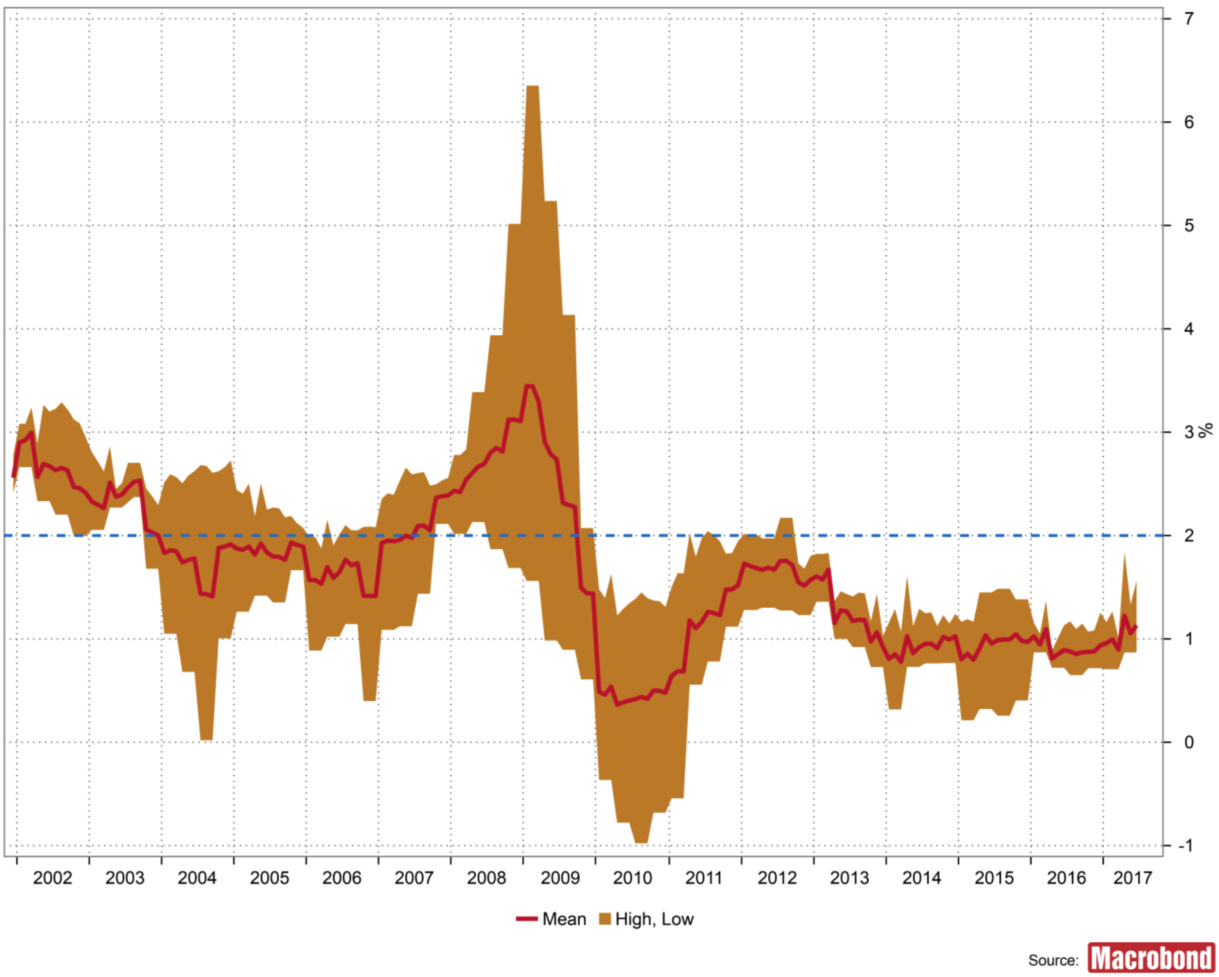
The combination of all these factors – dynamic country growth, changes in the labor force structure as well as changes in the perception of different groups of employees – constitute a combination of facts and opinions affecting employers' decisions in employment. Taking all these into account, we might conclude that the demand for workers aged 50+ will increase more dynamically in the nearest future.

A Glimpse at the Effects of the ECB's Expansionary Monetary Policy on Inflation

By: *Christopher Dembik, Head of Macro Analysis, Saxo Bank*

With only a few days to go before the next ECB meeting, it is instructive to assess the impact of expansionary monetary policy on inflation in the euro area. So far, reaching the ECB's formal CPI target has been the most challenging part of their job. Only five EMU countries (Slovakia, Germany, Spain, Belgium and Austria), representing around 54% of total euro area GDP, have attained inflation close or just below 2% (source: Macrobond).

Domestically Generated Inflation Euro Area



In most EMU countries, inflation has been driven mostly by rising energy prices, as shown in this simple model of Domestically Generated Inflation (DGI). The model calculates the range of inflation in the euro area based only on domestic factors: GDP deflator, service prices, and wage growth. Its main advantage is to remove from calculations energy base effects.

The trend in overall inflation has been sluggish in 2016, and the slight move upwards this year won't be enough to push CPI to the ECB's target level. Based on the weakening of DGI and a higher euro exchange rate (which reduces imported inflation), the ECB is unlikely to fulfill its inflation target anytime soon.

The underlying forces keeping inflation low in the Eurozone are complex. As economist Scott Sumner likes to say "monetary policy works with long and variable leads." No one is able to predict whether or when the massive monetary creation that has taken place after the global financial crisis will lead to much higher core inflation or even, as some economists fear, hyperinflation.

I can only agree with such humility but, nonetheless, I also believe that that "lowflation" is primarily a structural phenomenon that is here to stay. This is mainly because of (1) technological deflation, (2) labor market slack, and (3) an ageing population.

(1) For the first time ever, a top ECB official, Yves Mersch, has acknowledged that technological progress is impacting monetary policy: "Changes in the overall rate of technological progress affect the interest rates central banks set. As such, policymakers need to adjust policy settings to adapt to changes in the real economy" (Conference in Kuala Lumpur, July 24, 2017). More and more evidence shows that global labor abundance and technological progress, such as robotization, which will replace workers in the short-term, are fueling deflationary growth and preventing widespread wage increases that could spur CPI.

(2) Wage increases are also limited by labor market slack. A recent study published under the heading "Assessing Labour Market Slack" in the ECB Economic Bulletin (Issue 3/2017) concludes that "despite a clear improvement in many labour market indicators, labour markets in most euro area countries – with the notable exception of Germany – appear to still be subject to a considerable degree of underutilization." Labor market slack is estimated to be around 15% (at the end of 2016), which will contain wage dynamics in the medium term and, therefore, complicate the ECB's task.

(3) Ageing is also crucial to explain structural lowflation. In most developed countries, the largest population cohort is associated with baby boomers (net savers) while the cohorts behind are relatively smaller than in the past (predominantly net borrowers). The consequence is that there are fewer opportunities for savers to deploy their abundant savings. The borrowers hold the cards in today's lending market, meaning the cost of capital can only remain low to encourage more borrowing.

Source: Pixabay

The ECB has tried to do its best in avoiding the worst outcomes in a very particular context of structural change (demography, technology, debt). Due to technical constraints (bond scarcity) and political considerations, the ECB has no other choice than exiting its own quantitative easing. However, the central bank policy rate will certainly remain extraordinary low for a very prolonged period, providing low cost of capital to the market. Moreover, a long period of low inflation also opens the door to new monetary policy instruments, such as a Taylor-type rule including demographics, so the "natural rate" would move with growth in the working age population. This augmented model may confirm continuing low interest rate policies or new innovative measures, but the impact on inflation and growth is yet to be determined.

Countries at a glance

This week: The Central Statistical Office announced that more than 2.5 million Polish citizens temporarily resided outside of Poland for more than 3 months at the end of 2016, an increase of 4.7% compared to 2015. A full 83.3% of all emigrants stayed within the EU, with the largest number in the UK (788,000, 9.4% more than in 2015), followed by Germany (687,000, 5% more than in 2015).

GDP (Q2 2017, est.)

4.4% y/y

Up from 4.2% in Q1

Inflation (Sep 2017, est.)

2.2% y/y

Up from 1.8% in Aug

Unemployment (Aug 2017)

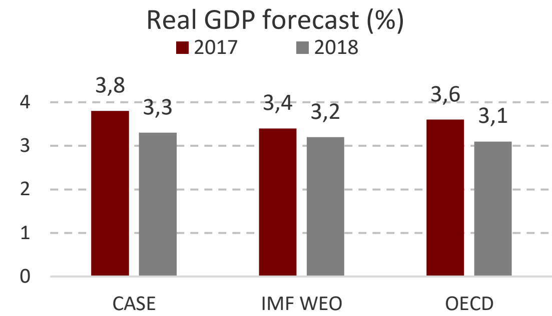
7.0%

Down from 7.1% in July

NBP Base rate

1.5%

From 2% Mar 2015



This week: Following last week's announcement of a planned ban on Bitcoins in Russia, President Putin endorsed the creation of the country's own cryptocurrency, the CryptoRuble. The users of CryptoRubles would be able to exchange them against ordinary Rubles, and Russia would become the first country to have a cryptocurrency backed by the state. A 13% tax would apply to exchange in case the owner was not able to explain the origin of the money.

GDP (Q2 2017)

2.5% y/y

Up from 0.5% in Q1

Inflation (Sep 2017)

3.0% y/y

Down from 3.3% in Aug

Unemployment (Aug 2017)

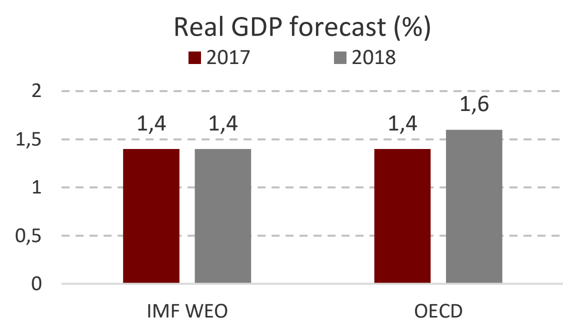
4.9%

Down from 5.1% in July 2017

CBR Base rate

8.5 %

From 9%



This week: Energy prices in Germany remain high. For the first time since 2015, the feed-in-tariff, used to subsidize electricity from renewable sources, will decrease by 1.3 % to 6.79% cent per kWh for the coming year. However, tariffs related to the planned expansion of energy networks may well outweigh the potential savings for consumers, and increases of the feed-in-tariff are expected in 2019. Unlike private consumers, the majority of industry is exempt from paying the feed-in-tariff.

GDP (Q2 2017)

2.1% y/y

Up from 2.0% in Q1

Inflation (Sep 2017)

1.8% y/y (est.)

From 1.8% in Aug

Unemployment (Aug 2017)

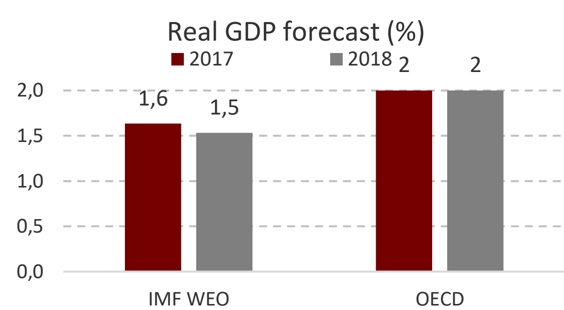
3.7%

Up from 3.6% in July

ECB Deposit rate

-0.4%

From -0.3% Dec 2015



This week: As part of the pension reform enacted in early October, mandatory employee quotas have been introduced. According to the regulation, at least 4% of employed workers must be over 45 years of age. The functioning of the employment quotas for older workers will be similar to that of quotas related to workers with disabilities.

GDP (Q2 2017)

2.3% y/y

From 2.5% in Q1

Inflation (Sep 2017)

16.4% y/y

Up from 16.2% in Aug

Unemployment (Q2 2017)

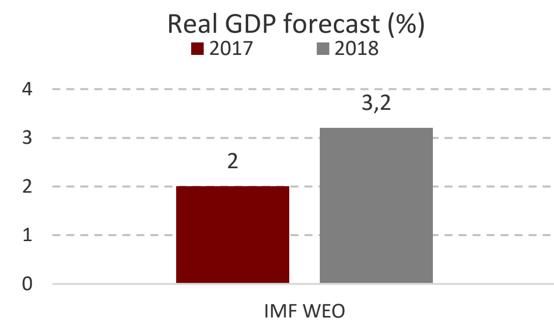
9.1%

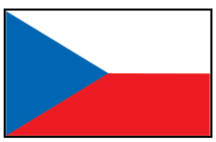
Down from 10.5% in Q1 2017

NBU Base rate

12.5%

From 13.0% in May





This week: The country's lithium resources have led to a heated debate during the Czech parliamentary campaign. Reportedly, lithium resources located near the town of Cinovec in the north-west of the Czech Republic may amount to 1.2 million tons, or approximately 3 % of the world's lithium resources, and be worth 3 billion CZK (EUR 120 million). Some MPs have issued a request to grant extraction rights to a domestic rather than a foreign company.

GDP (Q2 2017)

4.7% y/y

Up from 3.0% in Q1 2017

Inflation (Sep 2017)

2.7% y/y

Up from 2.5% in July

Unemployment (Q2 2017)

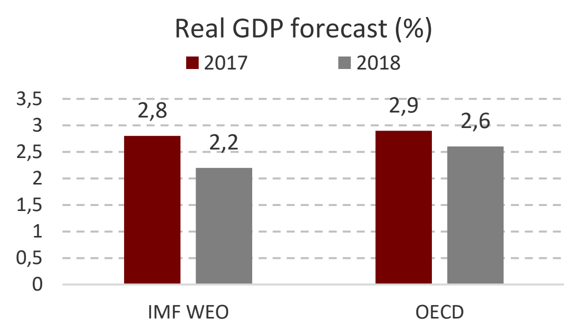
3.0%

Down from 3.4% in Q1

CNB Base rate

0.25%

From 0.05% (4 August 2017)



This Week: The Germany-based company Knorr-Bremse has just completed the world's largest factory of railway braking systems in Budapest in a project worth HUF 5 million (EUR 16.2 million). Hungary's Minister for Economic Regulation István Lepsényi expressed satisfaction with of the ongoing interest of German firms in his country and underlined the government's contribution to the project worth HUF 153 million (EUR 0.5 million).

GDP (Q2 2017)

3.2% y/y

Down from 4.2% in Q1

Inflation (Sep 2017)

2.5% y/y

Up from 2.1% in July

Unemployment (Q2 2017)

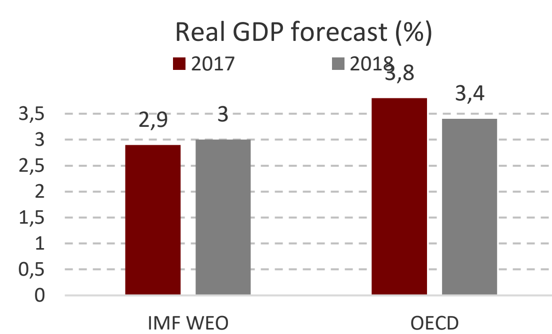
4.2%

Down from 4.3% in Q1

MNB Base rate

0.9%

From 1.05% May 2016



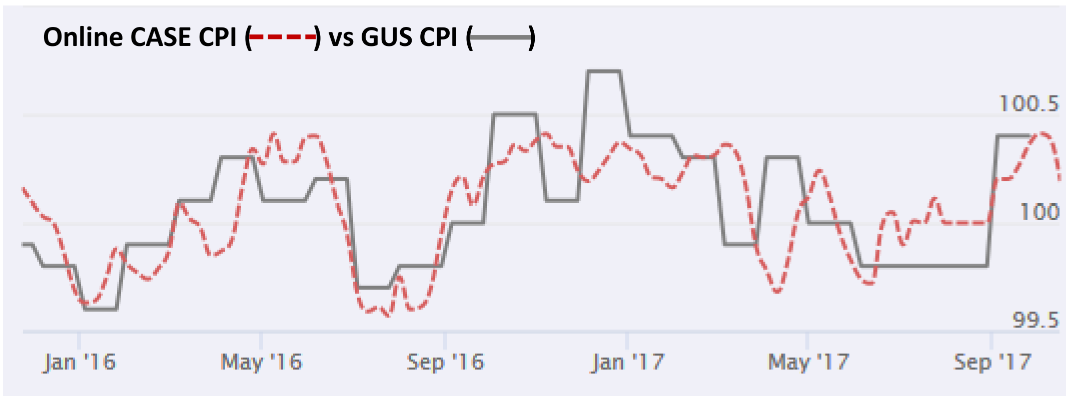
Other CASE products

Center for Social and Economic Research

The weekly online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly.

Our weekly online CASE CPI



Monthly CASE forecasts for the Polish economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, and foreign trade, current account balance, and the CPI.

CASE economic forecasts for the Polish economy
(average % change on previous calendar year, unless otherwise indicated)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2017	3.8	4.3	2.7	4.3	1.9
2018	3.3	3.3	3.1	3.7	2.1
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2017	5.1	201.6	201.8	-0.2	-4.7
2018	3.5	211.3	213.1	-1.8	-5.9

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