

Czech Republic: 2Q wage growth remains solid...

...as average wages increase by 7.2% after 7.5% growth in the previous quarter. The reading was supported by soaring public wages, which increased by almost 9% while private sector wages rose around 7% year-on-year



Public sector wages maintain solid pace

Public sector wages continued to grow at a robust pace in the second quarter following a 5% increase, on average, at the start of the year, and 10% rise for teachers. At 8.6% in 2Q, public wage growth surprised on the upside. The Czech National Bank (CNB) had expected a deceleration towards 7.3%. This stronger growth in non-market sectors was the main reason why overall wages in 2Q rose slightly above the market and CNB expectations of 6.9%.

7.2%

Nominal wage growth in 1Q19 (YoY)

4.3% YoY adjusted for inflation

Higher than expected

Market sector wages remain solid as well

Wage growth in market sectors also maintained a solid pace of around 7%, with health care, real estate activities and finance some of the notable drivers. Wage growth thus did not decelerate as much as expected amid the recent slowdown in the global economy.

Wage growth in specific segments

Sector	1Q 19	2Q 19
Education	9.9	11.4
Administrative and support service activities	8.7	8.8
Human health and social work activities	8.6	8.7
Real estate activities	6.0	8.6
Financial and insurance activities	7.6	8.5
Transportation and storage	7.4	7.9
Arts, entertainment and recreation	16.9	7.4
Water supply; sewerage, waste management and remediation activities	7.1	7.4
Other services activities	6.6	7.1
Accommo. and food service	7.0	7.1
Construction	6.9	6.8
Public administration and defence; compulsory social security	7.2	6.7
Manufacturing	6.7	6.5
Industry	6.7	6.4
Agriculture, forestry and fishing	6.2	6.1
Professional, scientific and technical activities	5.8	6.1
Information and communication	4.3	6.1
Electricity, gas, steam and air conditioning supply	7.1	5.9
Wholesale and retail trade; repair of motor vehicles and motorcycles	8.1	5.8
Mining and quarrying	5.7	4.2

Source: CZSO, ING

Next year, wages are likely to slow down

Strong wage growth in recent years has significantly increased business costs and has consequently reduced firms' competitiveness. But this pattern is also visible in other CEE4 countries where wages are growing at a double-digit pace. The Czech labour market remains tight, however, and wage growth is likely to remain strong this year, with some slowdown expected next year. Another planned increase in the minimum wage or wages in the public sector, which have not yet been agreed, will play an important role in 2020 wage growth. Current proposals in negotiations range between 3% and 8%.

The Ministry of Finance's current forecast and the CNB expect nominal wages to grow by 7% this year and around 5.5% next year. We expect slightly weaker prints but they're likely to be close to these estimates. The record wage growth of 7.6% in 2018 will not be surpassed this year, but the average figures will most likely remain strong as the domestic labour market is not yet reflecting the global slowdown.