

The era of rapid wage growth in the Czech Republic comes to an end

Wage growth in the Czech Republic slowed down to 5% from 6.2% in the previous quarter. Though slightly below market expectations, it was more positive than what the central bank expected. The slowdown is likely to continue but the second quarter will be the worst



Source: Shutterstock

In the first quarter, the slowdown in wages was relatively broad, with wages slowing in most sectors in comparison to the previous quarter, but in some sectors even declining in YoY terms, specifically in the real estate and cultural, entertainment and recreation sectors, which were hit by coronavirus outbreak and the high base from 1Q19.

Due to higher average inflation in 1Q20 of 3.6% (the highest quarterly average since 1Q12) compared to 3% in the last quarter of 2019, real wage growth slowed more significantly, from 3.6% to 1.4%, which is the lowest growth in last six years.

5.0% YoY 1Q20 nominal wage growth
1.4% real growth

Lower than expected

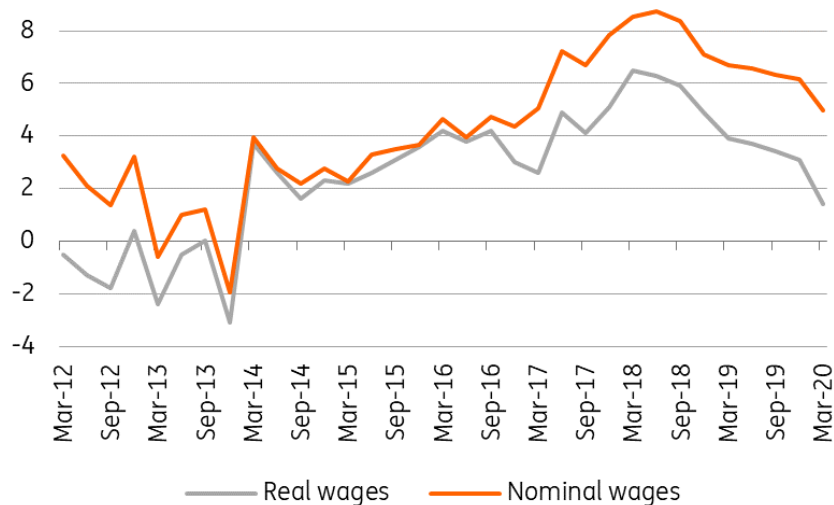
Rapid wage growth era comes to an end

It is clear that the rapid wage growth seen in the last five to six years has come to an end with this pandemic and the associated uncertainty.

In the first quarter, the wage slowdown wasn't incredibly pronounced, as the pandemic affected only the end of the quarter and only some sectors, but the wage fall will be more pronounced in the second quarter.

The central bank expects a year-on-year decline of 2%. Not just because of restrictive measures and a slowdown in the economy, but also due to technical reasons, when nursing and compensation bonuses won't be considered as wages, thus reducing the calculation of average wage.

Wages dynamics (% YoY)



Source: CZSO, ING

Forecasting wage developments in the Czech Republic this year is going to be difficult due to the current emergency situation and the effects of restrictions on the economy, as indicated by the relatively broad analyst estimates in the range of 1.7% to 5.7% for this year average.

The central bank expects a slowdown to 2.5% this year and an acceleration by 5.8% next year. We agree with the central bank's forecast for this year but expect weaker wage growth of around 3% next year.

Thus, average wages should grow marginally in 2020, however, given the fact that average inflation is likely to remain above 2%, real wage growth will cease after many years and stagnation is the best we can expect.