

Czech wage growth remains strong, though slowing down

Average wage growth dynamics slowed down slightly in the last quarter of 2019, to 6.7% year on year after 7% in the previous quarter. The solid figure was driven by double-digit public wage growth, mainly in education, while wages in the private sector decelerated to 5.7%



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Solid wage growth driven by the public sphere

Average wage growth reached 6.7% YoY in the last quarter of 2019. Dynamics thus ended slightly above market expectations (6.5% YoY), but slightly below the Czech National Bank's estimate (7.2%). Still, the solid wage growth was driven mainly by wage acceleration in the public sector due to the rapid growth of wages in education (16%) and overall in public administration (+7.2%). As such, wage growth in the so-called non-market sectors accelerated from 7.7% in 3Q19 to 11.2%.

In the market sectors, however, wage growth slowed down more than expected from 6.8% to 5.7%, with wage slowing down broadly (see the table). While public wage growth was in line with the CNB expectations, private sector wages lagged behind (6.3% vs. 5.7%).

Given a slightly higher average inflation rate of 3% in 4Q19 after 2.8% in 3Q, real wage growth

reached 3.6%, the weakest growth since 1Q17.

2019 wages remained strong

Despite a gradual slowdown, wages increased by 7.1% in the last year. This is slightly less than in 2018, when the year-on-year growth was 7.6%, but 2019 dynamics remains one of the highest in the last two decades. In the context of weaker numbers coming from abroad and a gradual economic slowdown, wage growth thus remained strong last year.

Czech wages growth by sectors (% YoY, top and bottom 5 sectors in 4Q19)

Sector	2017	2018	2019	3Q19	4Q19
Education	6.0	11.1	12.2	11.1	16.2
Arts, entertainment and recreation	8.4	10.7	10.5	7.9	9.1
Human health and social work activities	9.3	8.5	8.5	8.1	8.6
Agriculture, forestry and fishing	5.2	6.6	7.1	7.6	8.0
Financial and insurance activities	3.9	5.3	8.2	9.1	7.4
Manufacturing	6.9	7.1	6.0	6.0	5.0
Real estate activities	6.1	6.5	6.7	6.2	5.0
Wholesale and retail trade; repair of motor vehicles and motorcycles	7.4	6.8	6.5	6.9	4.7
Professional, scientific and technical activities	5.7	5.8	5.1	5.6	3.2
Mining and quarrying	5.8	7.3	3.9	6.3	-0.4
Total	6.7	7.6	7.1	7.0	6.7

This year, a further slowdown is likely both in nominal and real wages

Given the expected slowdown in the Czech economy this year and some easing in labour market tensions, we assume that the growth rate will slow this year to 5.5% - despite the fact that 2020 overall wage growth will be supported by further wage increases for pedagogical workers, health professionals and other state sector employees, as well as a further almost 10% increase in minimum wages. Due to higher inflation exceeding 3% this year, however, real wage growth will be just slightly above 2%, ie, the weakest since 2013, when real wages fell by 1.6%. This might somewhat slow down the slightly so-far-strong households consumption, however.