

Czech wages better than expected in 1Q

Average nominal wages increased by 7.4% year-on-year in the first quarter, accelerating from the previous quarter and slightly surprising market expectations to the upside. This was mainly due to the acceleration of wages in the public sphere



Stronger wage growth in the public sphere

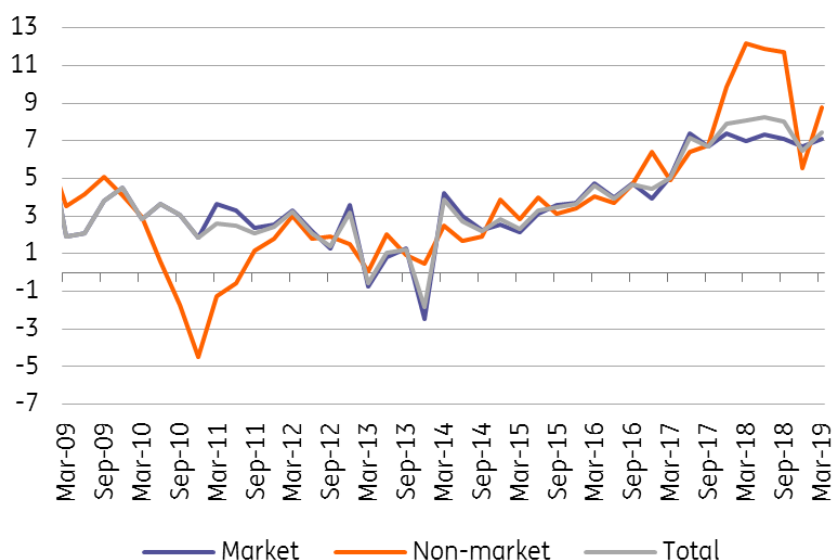
At the end of last year, a noticeable slowdown in wage growth to 6.5% was driven mainly by non-market sectors, where the year-on-year dynamics slowed from double-digit growth to just 5.5%. This was mainly due to a higher base, as a more marked increase in public sector wages took place in November 2017, which led to a decrease in annual growth at the end of last year. However, at the beginning of this year, there was a further increase in wages in the public sphere, mainly for teachers, who saw a 10% rise, but also for other public servants. As such, wages in non-market segments accelerated in the first quarter, from 5.5% to 8.8% (see chart), exceeding the central bank's expectations of 6.7%.

Wages in important market segments continue to slow down

Wage growth in market sectors also accelerated slightly from 6.7% to 7.1% (in line with the CNB's expectations). However, this was partially due to data revisions, as 4Q18 wage growth was revised downwards from 7.2%. The strongest contribution to wage growth was driven by *Human health and social work activities*, which were also affected by an increase in wages for some employees in

the health sector since the beginning of 2019 (this is considered a market segment, according to the CNB's definition). A further increase in the minimum wage by CZK 1,150 to 13,350 helped to push up wages partially. But a number of major segments, including manufacturing, are showing a gradual slowdown in wage growth, and this was visible in the previous quarter.

Wage growth in (non)market segments (% YoY)



Source: CZSO, ING

Wage growth peaked last year

After strong wage growth over the past two years, companies are now complaining (in the latest business surveys) about increased wage costs eroding their competitiveness. As such, their willingness to raise wages at a similar pace as last year will be significantly lower despite the continuing overheated labour market. This will also be underlined by growing concerns about an economic slowdown driven by foreign developments. This means that wage growth likely peaked last year and we expect it to slow to more sustainable levels around 6% this year.