

## Czech wages continue to grow at a rapid pace

Czech nominal wages picked up by 6.8% year-on-year in the third quarter. A solid figure, but slightly behind the market and CNB expectations



# 6.8%

Czech wage growth in 3Q17 (YoY)

Below the CNB and market expectations

Worse than expected

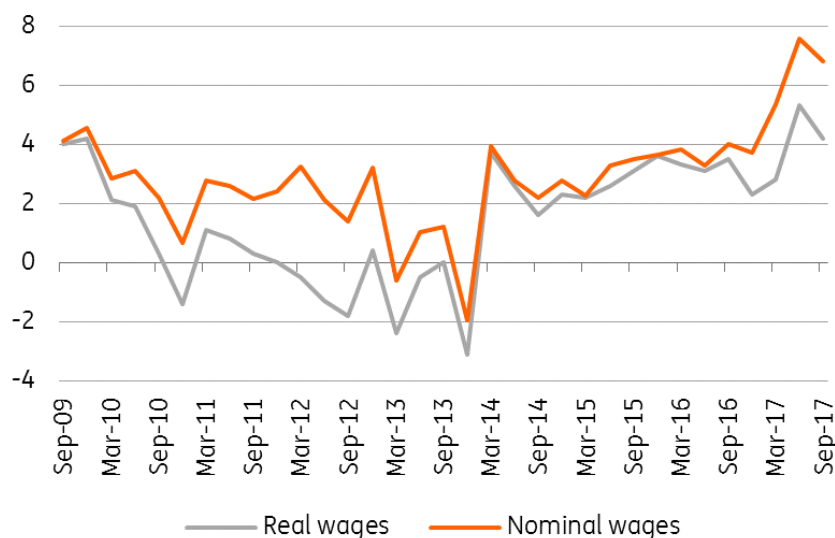
### The reasons for the growth

The Czech average nominal wage increased by 6.8% YoY in the third quarter of 2017. Wage dynamics moderated slightly compared to the previous quarter's growth of 7.6% YoY and ended behind both the market (7.8%) and the Czech National Bank's forecast of 7.5%.

Wages are growing faster in below-average-paid professions, which shows a more rapid rise in median wages, which accelerated by 7.1% year on year (vs. 8.1% in 2Q17). This is partly due to the

gradual increase in the minimum wage, which has grown from the original CZK 9,900 to CZK 11,000 this year and should increase to CZK 12,200 at the beginning of 2018.

## Wages dynamics (% YoY)



Source: CZSO

## Weaker wages might not support hawks in the CNB

As in the previous quarter, the fastest growing wages were seen in accommodation and food service activities (10.3% YoY after 15.7% in 2Q17), which is related to the introduction of an online sales registration system, pushing wage compensation figures from the grey economy to the official statistics and also to the rise in the minimum wages. On the other hand, the slowest wage growth was recorded for the financial sector (2.8%).

Wage dynamics in the third quarter were also influenced by a compensation increase for state sector employees after July 2017, especially among security officers, nurses and social services workers. As such, wages accelerated in these segments, but both market and non-market sector wages in 3Q17 ended behind the CNB expectations from its latest November forecast. This is likely to support the arguments of those CNB Board members who do not consider an interest rate rise necessary in the upcoming December meeting. Market expectations for the December hike also declined after the wage-data release.

## Wages should further accelerate next year

Despite the slightly weaker 3Q17 figure, these numbers are still some of the highest in the past ten years. That's also reflected in strong consumer confidence and generally favourable household consumption figures. Average wage growth for this year should reach almost 7%, the highest full-year number since 2008 when nominal wage grew by 7.8%. Due to the very tight labour market, however, wage dynamics should accelerate further next year, supported not only by favourable economic developments but also other increases in the minimum wage, planned rises in wages for state employees and the increased pressure of trade unions.