

## Czech wage growth remains strong

Nominal wages grew by 8.5% year-on-year in the third-quarter. Wage growth slightly exceeded the consensus and the central bank estimates of 8.2%, mainly due to higher wage growth in non-market sectors



Source: Shutterstock

### Wage growth in non-market segments accelerated in 3Q

As in the previous quarter, wage growth was faster in the non-market sector, as a result of wage hikes for civil servants and teachers in the second half of 2017. Year-on-year wage growth in non-market sectors continued to accelerate further from 11.4% in 2Q to 11.9% in 3Q, despite expectations for some deceleration due to the base effect (public sector salaries had already been raised in the third quarter of last year).

# 8.5%

Better than expected

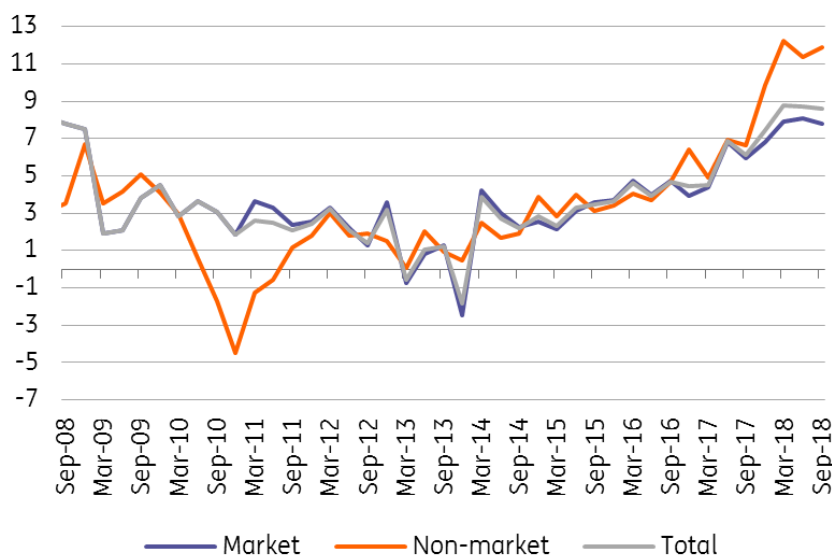
## Nominal wage growth in 3Q18

9.8% YoY median wage growth

## Market wages slightly decelerated due to industry wages

In contrast, wage growth in market sectors moderated slightly, from 8.1% to 7.8% compared to the previous quarter. In particular, wages in industry slowed down from 8% to 7% YoY most likely due to the fact the 2Q figure was affected by one-off bonus payments in the automotive sector. However, wages in many market sectors further accelerated, e.g. construction (8.7% YoY), accommodation and food service activities (8.2% YoY) and real estate activities (10.8% YoY).

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



Source: CZSO, ING Bank

## Real wages continue to be strong

In real terms, wages grew by 6.2% YoY in 3Q- still one of the highest year-on-year rates over the last ten years. This year, nominal wage growth will surpass 8% but we expect some deceleration next year towards the 6-7% level. While the labour market is expected to remain tight, we think higher labour costs will decrease the profitability of companies and thus put pressure on wages.

## Wage growth broadly in line with the CNB forecast

The deviation from the Czech National Bank's forecast is negligible (8.5% in nominal terms vs the 8.2% estimate). The CNB expected a stronger deceleration in non-market wages in 3Q18 (8.8% estimate vs 11.9% actual), but slightly higher wages in the market segment (8% estimate vs 7.8% actual), though the total difference is relatively small and it is no game changer for the latest CNB forecasts. Strong wage growth supporting household consumption, in combination with a weaker-than-expected Czech koruna, will be the main reasons why the central bank continues to raise rates gradually next year, in our view.