

## Czech wages stay strong in 2Q

Nominal wages grew by 8.6% year-on-year in 2Q18. This strong figure was driven both by public sector wage growth of 11% and accelerating private-sector wage growth of 8.0% YoY.

This favourable trend increases the chance of an end-of-September rate hike, in our view



Source: Shutterstock

### Solid wage growth both in market and non-market segment in 2Q18

The average nominal wage increased by 8.6% YoY, beating the market estimate of 8.2%, while remaining negligibly below the central bank forecast of 8.7%. Median wages, however, accelerated by 9.4% YoY, which is the strongest growth in the last 10 years.

As in the previous quarter, more robust wage growth was seen in the non-market segments, which is influenced by a 10% increase in the compensation of civil servants and a 15% increase for teachers in 2H17. As such, wages in non-market sectors grew by 11.4% YoY in 2Q18 but slightly decelerated from 12.2% growth in 1Q. However, wages accelerated further in the market sectors from 7.8% in 1Q18 to 8.0% YoY.

# 8.6%

## Wage growth in 2Q18 (YoY)

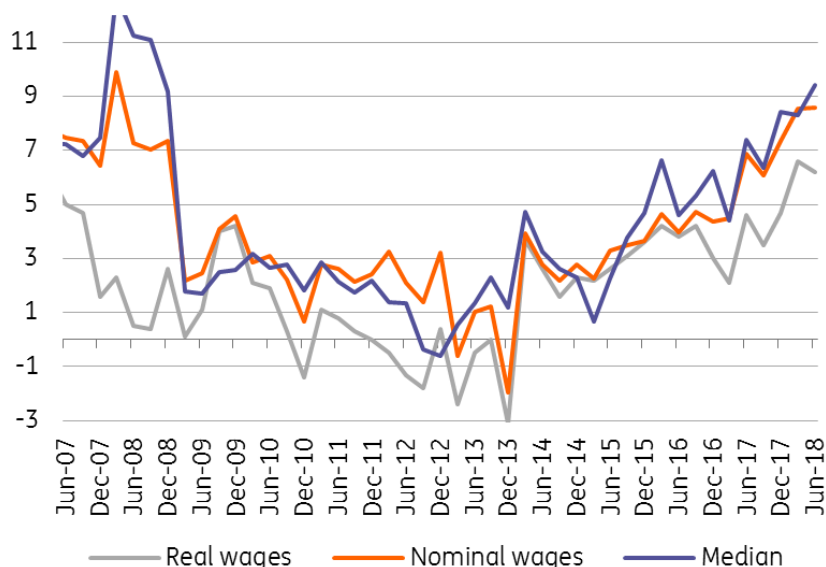
above the market consensus of 8.2%

Higher than expected

### Real wages remain strong above 6%

Due to slightly higher inflation of 2.2% in the second quarter of this year, real wage growth decelerated slightly from 6.6% in 1Q18 to 6.2% YoY. Despite this slightly weaker print, it is still one of the highest annual growth rates for real wages in the last 15 years and should support household consumption.

### Wage growth (% YoY)



Source: CZSO, ING Bank

### Wage growth should remain robust next year

Wages have continued to rise at a brisk pace this year, with growth likely to surpass 8% in 2018 after 6.2% growth in 2017. This will be driven not only by administrative factors and salary increases in the public sphere, but also the overheated labor market with a lack of adequate workers accompanied by increasing union pressure. Real wage growth will be more than 6%, which will be one of the best rates in the past 20 years. Next year, nominal wages should grow between 6% and 7%, according to our estimate.

### Wage growth supports further rate hikes in 2H18

Although 2Q18 wage growth was slightly below the central bank's estimate, the difference was only marginal. The CNB expected slightly higher wage growth in market sector wages (8.5% vs. 8.0%), while for the non-market sector, a more rapid slowdown to 10% was expected. However, the difference is negligible from the perspective of the central bank's latest forecast. At the same

time, recent government measures increasing wages in the public sector next year by an average of 8% bring further new inflationary factors to the recent central bank projection, as the CNB expected only 6.9% growth in non-market wages for next year.

The rapid rise in wages, accelerating inflation and, in particular, still relatively weak koruna, are reasons not to further postpone monetary policy tightening. As such, an end-of-September hike is become the most likely scenario, in our view.