

## Czech wages slower but still solid

Nominal wages grew by 6.9% year-on-year in the third quarter. Wage growth ended slightly below the market and the Czech National Bank's expectations of 7.2%, but average wage growth of close to 7% this year will be among the highest in the last two decades



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### Wage growth slowed down both for public and market segments in 3Q

Due to the increase in public wages at the beginning of this year, annual wage growth in the public sector was again higher compared to wage growth in the private sector. In both cases, however, wage growth slowed down in 3Q, to 6.7% YoY from 6.9% in the private sector and to 7.6% YoY from 8.6% in the public sector, mainly due to weaker growth in public administration wages.

# 6.9%

## Average nominal monthly wage in 3Q (YoY)

Slightly weaker than expected

Lower than expected

### Wage growth ended slightly below the CNB estimate

Private wage growth of 6.7% was below the CNB's latest forecast for a slight acceleration to 7.1% in the third quarter. Public sector wages were only negligibly below the CNB's expectations (7.6% vs. 7.7%). Total wage growth of 6.9% was also below the 7.2% forecast. As a result, the central bank is likely to moderate its slightly hawkish rhetoric at the December monetary policy meeting in our view, particularly because the GDP structure was also slightly weaker than expected in the third quarter.

Wage growth again varied significantly across sectors, with wages growing fastest in education, as well as in finance, where wage growth has been slightly below average in the past few years, along with health care.

### Wage growth in different segments (% YoY)

Sector	2017	2018	2Q19	3Q19
Education	6.0	11.1	11.4	11.1
Financial and insurance activities	3.9	5.3	8.4	8.8
Human health and social work activities	9.3	8.5	8.7	8.1
Administrative and support service activities	5.3	6.5	8.3	7.9
Arts, entertainment and recreation	8.4	10.7	7.7	7.4
Agriculture, forestry and fishing	5.2	6.6	6.4	7.4
Other services activities	4.4	5.9	6.9	7.1
Electricity, gas, steam and air conditioning supply	5.2	6.2	5.6	7.1
Water supply; sewerage, waste management and remediation activities	6.0	6.5	7.3	6.9
Accommo. and food service	11.3	7.3	6.9	6.9
Wholesale and retail trade; repair of motor vehicles and motorcycles	7.4	6.8	5.9	6.8
Transportation and storage	6.2	7.1	7.8	6.8
Mining and quarrying	5.8	7.3	4.3	6.3
Industry	6.8	7.1	6.5	6.2
Real estate activities	6.1	6.5	8.8	6.1
Manufacturing	6.9	7.1	6.5	6.1
Construction	4.2	7.9	6.7	5.6
Information and communication	5.3	5.1	6.6	5.5
Professional, scientific and technical activities	5.7	5.8	5.7	5.4
Public administration and defence; compulsory social security	8.0	10.3	6.7	4.9
<b>Total</b>	<b>6.7</b>	<b>7.6</b>	<b>7.2</b>	<b>6.9</b>

Source: CZSO, ING

### Real wages slowed down to 4%

Given average inflation of 2.8% in the third quarter, real wage growth was 4% (vs. 4.3 in the second quarter), the weakest growth since 1Q17. However, households continue to benefit from the overheated labour market as the economic slowdown always spills over to the labour market with some delay. As such, wage growth maintained a solid growth rate this year and did not slow as fast as expected at the beginning of the year.

### Wages should slow down next year close to 5%

Wage growth should be close to 7% this year, which will be one of the highest annual growth rates in the last two decades. Next year, wage growth will be supported by further wage increases for

teachers and other public sector employees, as well as a further 10% rise in the minimum wage. Nevertheless, we expect wage growth to slow down to 5.5% due to slower economic growth and a slight easing of labour market pressures, a forecast also shared by the Ministry of Finance and Czech National Bank.