

## ANALYSIS

4 December 2020

### Development of the Czech labour market in the Q3 2020

In the third quarter of 2020, the Czech labour market was in an interim period between two big waves of COVID-19 pandemic accompanied by quarantine measures. While the volume of working hours returned to usual values, employment was decreasing, however, the development in individual industries (economic activities) was differentiated. The average wage nominally increased by 5.1%, year-on-year; however, prices were considerably increasing at the same time and therefore earnings increased in real terms by 1.7%.

#### Hours worked, employment, unemployment, and economic inactivity

Data about hours worked by individual month drawing from the Labour Force Sample Survey (LFSS) are the most characteristic results describing progress of this year's crisis. They have been specially prepared since March and published within the News Release of the CZSO called Rates of employment, unemployment and economic activity.

**Chart 1: Weekly hours actually worked in the main job from the LFSS, index to the corresponding period of the previous year**



Much deeper falls of hours worked can be found in the group of the self-employed (entrepreneurs). Their average number of hours decreased the most in April (by 31%), y-o-y. Since May, the situation started to stabilise. In June, the drop by 6% corresponded to situations

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of winter flu epidemics; since July, the hours worked have been already as usual, while a preliminary piece of data for October (when significant anti-infection measures already became effective) indicates the depth of the second wave (-11%).

A similar development is in the dominant group of employees; however, the decreases in the group are much less deep. The average number of hours worked by employees decreased by 19% in the crisis month of April. From June until September the figures corresponded to an ordinary situation; October brought a decrease by 6%, which is roughly comparable to the May situation or the worst flu epidemic in winter 2018.

Standard aggregate indicators of the LFSS depict primarily fall in the employment. For the whole Q3 2020, the number of working persons (employment) decreased by 1.4%, y-o-y, to 5 233.3 thousand persons; in the y-o-y comparison, it thus decreased by 72.9 thousand persons; however, in the quarter-on-quarter (q-o-q) comparison, it increased by insignificant 1.1 thousand after seasonal adjustment. The employment rate (74.4%) in the age group of 15–64 years decreased by 0.9 percentage point (p. p.); the slump in female employment rate (1.4 p. p.) was significantly higher than that of males (0.4 p. p.).

In the economic activities (sections of the CZ-NACE classification), the development is imbalanced; a decrease can be found mainly in manufacturing (by 56.7 thousand). According to the Classification of Occupations (CZ-ISCO), the number of employees dropped substantially in service and sales workers and in the major group of clerical support workers, whereas the highest increase of the number of workers was among those working as specialists.

It turns out that only part of the outflow of the working persons headed towards unemployment; the other ones remained, at least temporarily, economically inactive, mainly because they were not seeking a job. The number of economically inactive persons aged 15+ years increased by 54.9 thousand to 3 600.1 thousand, year-on-year. The number of economically inactive females increased much more than the number of economically inactive males (females were 45.6 thousand up, males were 9.4 thousand up). Mainly the number of economically inactive females aged up to 45 years increased (by 45.0 thousand), for whom it can be assumed that they take care of children.

The total number of the unemployed according to the LFSS (persons who seek a job in an active manner as defined by the International Labour Organisation (ILO)), reached 153.9 thousand persons; after seasonal adjustment, the figures show an increase by 14.3 thousand persons, q-o-q. In the y-o-y comparison, the unemployment increased by 39.0 thousand. The general unemployment rate thus increased to 2.9% (by 0.8 p. p.).

Here it is worthwhile reminding that the LFSS covers only persons living in dwellings (flats), not those living in hostels and similar collective households, which has a negative influence on the capture of foreigners who often use such ways of housing.

### **Registered number of employees expressed as full-time equivalent employees**

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Preliminary data of the CZSO business statistics show a sharp decrease in the registered number of employees. In the Q3 2020, compared to the corresponding period of the previous year, there were by 125.0 thousand employees less in full-time equivalent, which is a relative decrease by 3.1%. Thus, the registered number of employees already for the second successive quarter fell below the level of 4 million (3 951.0 thousand), where it was last time in the Q1 2017.

As for individual industries (economic activities), the situation was very diverse; it was depending mainly on how individual branches were able to cope with an abnormal situation. In general, half of the decrease of the number of employees was in the tertiary sector (services) and the second half was in the rest of the economy. At the same time, we can find five economic activities of the CZ-NACE, in which the number of employees increased, four of which belong to the sector of services. The most numerous one is 'education', which was 9.4 thousand up (relative growth by 3.1%). A big increase is also in 'real estate activities' (4.3 thous.); however, it is still (numerically) an industry of lower importance. The remaining ones are only marginal: in 'information and communication,' the number of FTE employees increased by 0.5% (0.6 thousand); at the same time, this industry is constantly increasing. An increase in the number of social workers contributed 0.2% (0.7 thousand) to the growth in 'human health and social work activities'. The last one was 'water supply; sewerage, waste management and remediation activities,' in which the number of employees increased by 0.9%, which is 0.5 thousand, and it is the only economic activity of industry, which was increasing.

Otherwise, the decrease in industry was considerable; in total, there were by 60.4 thousand less employees, year-on-year. Relatively highest decrease (-7.0%) was in 'mining and quarrying,' in which the numbers of employees have been constantly decreasing; to put it in numbers, it is only 1.6 thousand. The biggest section is 'manufacturing,' which employs 1 081.5 thousand employees; however, there was a decrease by 58.9 thousand, y-o-y (-5.2%). Table 1 from the News Release newly shows the most important CZ-NACE divisions of this section, in which the decreases are by five and six percent – except for manufacture of food products (-2.5%). Here a piece of data about the section of 'administrative and support service activities' also has to be added, because it includes agency workers who also usually work in production, in which there is a high decrease of employees by 29.2 thousand (-14.8%).

Now we get to the section of 'accommodation and food service activities,' which is the only one to exceed the percentage value with its 15.0%. The decrease in absolute terms was 18.7 thousand employees. Significant decreases were also in 'transportation and storage' (drop by 10.8 thousand, -4.0%), 'professional, scientific and technical activities' (decrease by 6.3 thousand, -3.5%), and, finally, in trade ('wholesale and retail trade; repair of motor vehicles and motorcycles'), in which the number of employees decreased by 6.4 thousand (-1.3%).

Certain drop was also in construction (-1.4 thousand; -0.6%). In 'agriculture, forestry and fishing,' there were by 1.2 thousand positions less, which is by 1.3% less. And finally, three smaller economic activities: in 'financial and insurance activities,' there was a decrease by 0.7 thousand (-1.0%); 'arts, entertainment and recreation' lost 2.1 thousand employees (-4.1%) and 'other service activities' lost 2.7 thousand (-5.6%).

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### Average gross monthly wages

The average wage (CZK 35 402) increased nominally by CZK 1 716 in the Q3 2020, compared to the corresponding period of 2019, i.e. in relative terms by 5.1%. As for this indicator, we can observe a return to nominal growth after the fall in the Q2 to the value of 0.6%, which is an outlier in the time series. Data for the Q3 2020 follow the economic development from the previous years, namely up to the Q1 2020, which has the same value of the index. However, it is an average of a very diverse development on the level of individual economic activities, enterprises, or organisations.

Expressed in real terms, the wage increase was much weaker – the average wage increased in real terms by 1.7%, which is by 0.3 p. p. more than in the comparable Q1 2020. Let us remind in brief that the real wage growth was gradually attenuating from the maximum of the decade (6.5%) in the Q1 2018, during the whole year 2018 it was 5.9%, and in the previous year 2019 it was still 3.5%. What is also influential besides the nominal slowdown is inflation (consumer price index), which is over three per cent this year - currently, it was 3.3%.

Wage development was highly differentiated the same as the development in the number of employees. In all CZ-NACE sections but one, however, we can find a nominal increase of the wage level. The mentioned exception is 'financial and insurance activities' with a decrease by 0.9% (i.e. CZK 493). Despite that, this economic activity still ranks second with its wage level; the average wage there was CZK 55 449. The first one was definitely 'information and communication,' in which the average wage increased by 5.3% (i.e. by CZK 3 047) to CZK 60 878.

The most considerable increase of wages expressed in percentage was in 'human health and social work activities' (11.8%); it is related to a change in salary tables as of 1 January 2020 as well as to above-tariff components.

A similarly high wage increase (11.6%), although due to other reasons, can be found in 'administrative and support service activities,' which include also employment agencies. There were massive laying offs, one seventh of the original number of employees disappeared, year-on-year; it applied probably to those with the below-average wage, by which the arithmetic mean of the rest automatically increases.

### Chart 2: Year-on-year average wage growth by CZ-NACE section

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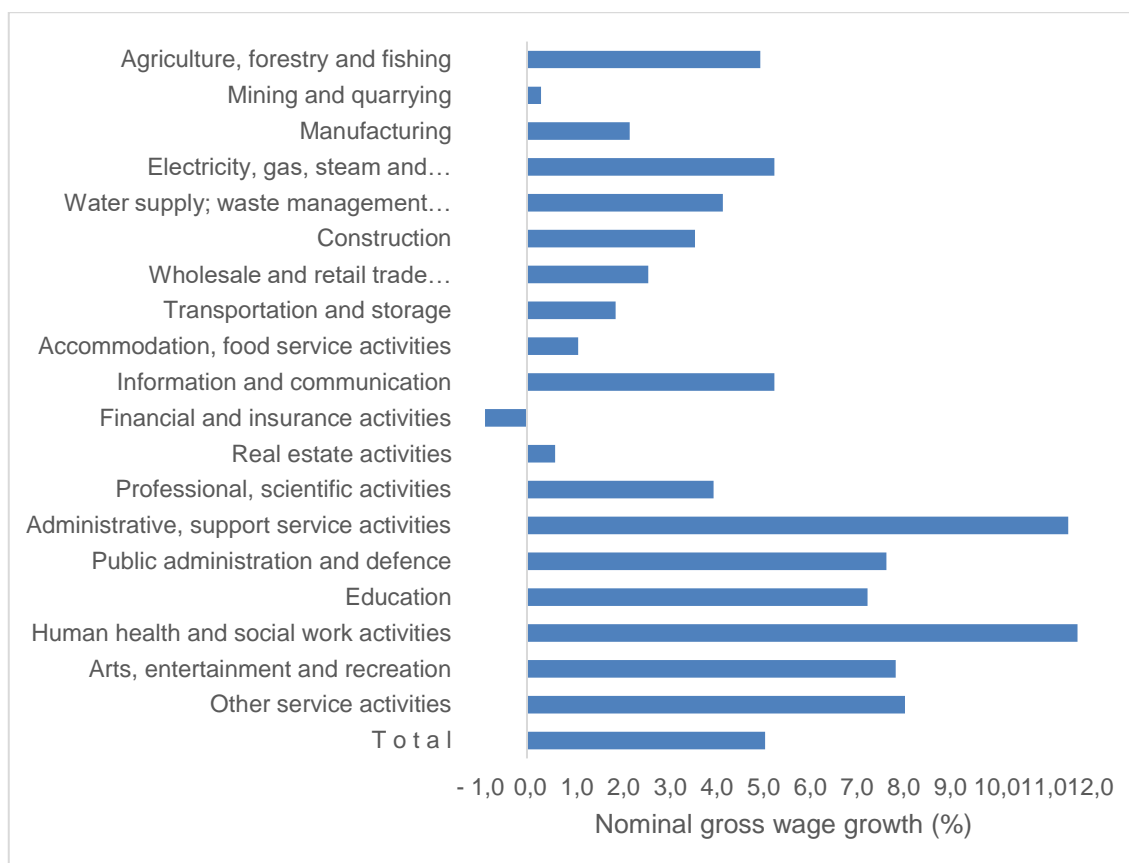
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On the other hand, in 'accommodation and food service activities,' this phenomenon did not occur, although there was a decrease by a similar proportion of employees. The average wage increased only by 1.1%, which is one of the slowest increases of wages among CZ-NACE sections. It indicates that either those receiving below-average wages were not dismissed and it was a consequence of bankruptcies of whole establishments (stores) or a stronger decreasing of wages of the remaining employees outweighed this factor. The economic activity also has permanently the lowest wage level of all sections (currently it is CZK 20 704).

The slowest wage increase was (with the exception of the already mentioned 'financial and insurance activities') in 'mining and quarrying,' (0.3%), in which the wage level (CZK 36 204) thus got very close to the level of the average wage in total (CZK 35 402), while in the beginning of the century it was by about one fourth higher.

In 'real estate activities,' the increase in the number of employees contributed to an increase in wages that was well below the average (0.6%). A moderate wage increase was also in 'transportation and storage' (1.9%).

Conversely, above-average growth figures can be found in 'other service activities' (8.1%), 'arts, entertainment and recreation' (7.9%), 'public administration and defence; compulsory social security' (7.7%), and 'education' (7.3%). 'Electricity, gas, steam and air conditioning supply'

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exceeds the total value only slightly (5.3%). In trade ('wholesale and retail trade; repair of motor vehicles and motorcycles'), which is the second (as for the number), wages increased only by 2.6% to CZK 32 469.

In 'manufacturing,' in which the most employees work, the average wage increased to CZK 33 643, which is an increase by 2.2%. We can see from a more detailed breakdown that an above-average increase of wages was in 'manufacture of food products' (6.1%), while in 'manufacture of motor vehicles, trailers and semi-trailers' wages grew only by 2.3%. In 'manufacture of fabricated metal products, except machinery and equipment,' the increase was only by 0.9%; in 'manufacture of machinery and equipment, n.e.c.,' the average wage even decreased by 0.1%.

### Development in Regions

Regional results bring also a varied picture; however, the impacts of the current crisis on the numbers of employees seem to be nationwide, i.e. there were decreases in all Regions. The span of decreases in Regions, however, was from 2.0% in Prague up to 6.3% in the *Karlovarský* Region. Over a four percent decrease in the number of employees was also in the *Liberecký* Region (-4.4%) and the *Moravskoslezský* Region (-4.7%).

Another situation is in wages – in Prague, the average wage increased nominally only a bit, just slightly above the inflation level (+3.5%). The highest wage increases were in the *Olomoucký* Region (6.4%) followed by the *Jihomoravský* Region (6.3%) and the *Ústecký* Region (6.2%); a six per cent figure was achieved also in the *Pardubický* Region (6.0%).

Nevertheless, according to the total level of earnings, the Capital City of Prague remains the richest among the regions of the Czech Republic. The average wage in Prague was CZK 43 035, the *Středočeský* Region remains to rank second with CZK 35 652; the average wage increased there by weaker 4.4%. On the other hand, the *Karlovarský* Region remains to be the Region with the lowest wage level (CZK 31 448; growth by 5.3%), closely followed by the *Zlínský* Region (CZK 31 640), in which the average wage increased by 5.0%. In the *Moravskoslezský* Region wages increased by 5.2% to CZK 32 373.

### Chart 3: Numbers of employees by Region, in which they work (in thousands)

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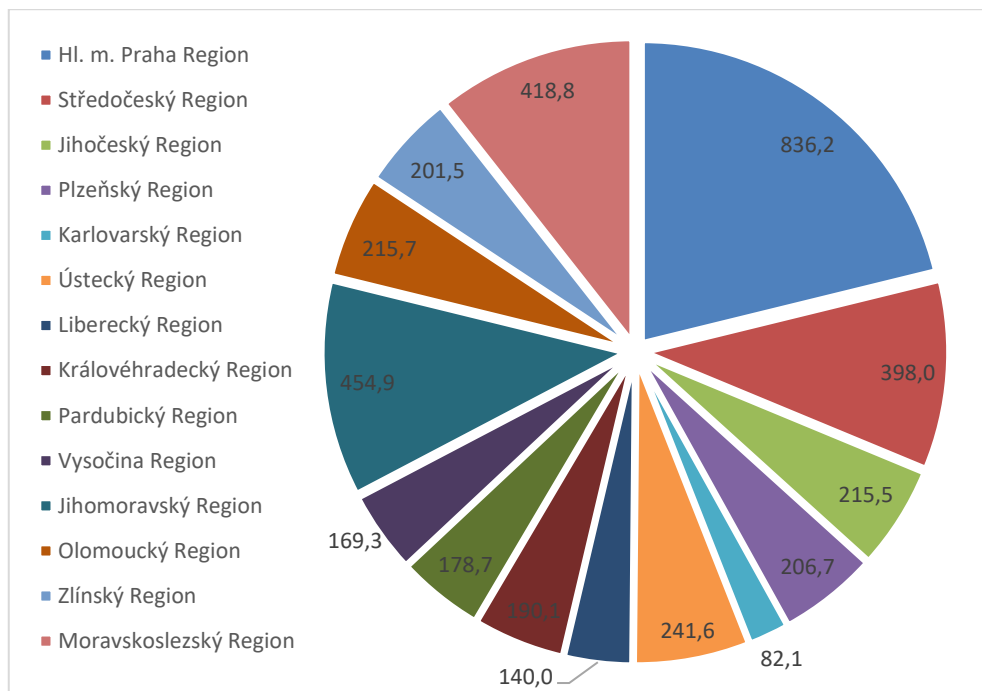
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### Median wages and decile intervals of wages, socio-economic characteristics

The News Release of the CZSO for the Q3 2020 also contains a piece of data on the median wage, which is calculated from a mathematical model of the earnings distribution. The model shows the wage of a middle employee, i.e. a common wage level. Extreme deciles were calculated simultaneously as well. In the Q3 2020, the median wage increased to CZK 31 183, which is by CZK 1 506 (i.e. by 5.1%) more than in the corresponding period of the previous year.

The wage interval has narrowed in the Q3 2020. Ten percent of employees with the lowest wages was receiving a gross wage below CZK 16 612 (the bottom decile increased by 10.6%, y-o-y), while the opposite tenth had wages above CZK 55 089 (the top decile increased by 4.1%). The decile ratio thus decreased by 0.2 point, year-on-year.

Although the female median wages increased more significantly by 6.7%, year-on-year, while the wages of males grew only by 3.7%, the wage level of males was still much higher: in the Q3 2020, the female median wage was CZK 28 825, while the male median wage was CZK 33 261; thus, it was higher by CZK 4 436 (i.e. by 15%). Concurrently, wages of males were distributed over a substantially wider interval than wages of females; especially the area of high earnings is considerably higher for males than for females. The top decile for females was CZK 48 992, while for males it was CZK 60 908, by which it is by 24% higher. As for low earnings, the difference was smaller; the bottom decile for females was CZK 15 924 and for males it was CZK 17 057, i.e. by 7% higher.

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