

6. Labour Market

Immediate impacts of the external shock on the labour market were considerably varied. They were reflected the most in fading of overall economic activity.

Even though the domestic labour market traditionally reacts to economic shocks with certain delay, the pandemic restrictions already managed to be markedly felt. More than two-month period of state of emergency struck into the whole first half of Q2 2020 and also in subsequent weeks the return to normal was taking place only very gradually. So far monitored impacts of this shock on the labour market were considerably varied (for example from the view of branch or position of persons in employment). Diverse intensity of impact also emphasised the testimonies of households (experiencing negative impacts in their employment as well as concerns regarding the growth of unemployment). The substantial downturn of economic activity expressed both by lower number of employed and also deeper reduction of hours worked were the most visible manifestations of the onset of economic recession in Q2. The on the contrary so far only mild growth of unemployment was connected to the stabilisation government programmes (Antivirus, care benefits) and with the fact, that part of persons, who lost work, evacuated the labour market (foreign workers, economically inactive). Worsened economic situation of businesses was evident by ceasing of growth of average wages in the majority of market branches and contrasted with the so far stabilised development in branches with the dominance of state.

Total number of employed shrank by significant 1.4% during Q2 following the stagnation at the beginning of the year.

While the total employment¹ stagnated in quarter-on-quarter expression in Q1 2020, similarly to the whole last year, it already dived by record 1.4% in Q2. In the preceding recession periods, the loss of employment positions was more gradual, simultaneously it however had longer term character². The employment lowered by 1.9% year-on-year (the most after Q1 2010), it is however necessary to take into account, that the number of employed attained record level in the history of independent CR (5.44 mil.) last year. This decrease was caused nearly exclusively by employees, since the number of self-employed was falling slower (-1.5%)³. It can be perceived relatively favourably, because 60% of entrepreneurs (without employees) stated within the LFSS survey, that they experienced adverse impacts in their enterprise (financial difficulties, lower sales, volume of work or orders)⁴. Nearly three quarters of these affected at the same time considered the impacts likely temporary and possible to overcome (e.g. with the help of government programs). From the view of main branches, manufacturing where also due to “cooling” of agency employment 51 thousand of places decreased (3.5%), contributed to lower employment the most in the whole economy in Q2. Almost 43 thousand positions were cut in the services sector, it was however very unevenly distributed. Due to substantial impact of restrictions in the tourism area, the number of working in the grouping trade, transportation, accommodation, food service and restaurants reduced by 40 thousand, resp. 3.2%. Professional, scientific, technical and administrative activities (-4.4%) had the deepest relative reduction of places. It contrasted with the long term growth of employment in information and communication (+3.4%) and also in branches with the dominance of state (+1.6%), where it was the effect of recruiting in education, among other things also because of higher number of students in primary education.

Especially employees contributed to the year-on-year decrease of employment. Stronger reduction of places occurred in manufacturing and branches of services associated with tourism.

Number of hours worked by employees returned to normal in June.

The effect of pandemic restrictions is plastically expressed by the decrease of number of hours worked in the economy. Based on the LFSS, it was 10% year-on-year in March, in

¹ Unless stated otherwise, data regarding employment are given in the national accounts' conception after adjustment for seasonal effects in this chapter.

² E.g. in years 2009 and 2010, the employment decrease lasted five quarters (it arrived at total -3.8%), in period 1997 to 1999 even ten quarters (-5.1%).

³ Situation was however different in individual branches. 7% decrease manifested similarly in manufacturing, in grouping trade transportation, accommodation and restaurants. In contrast, the number of entrepreneurs expanded by one sixth in information and communication, it was also higher in construction (+1.5%).

⁴ Small businesses were affected this way the most in accommodation, food service and restaurants (94% of entities in this branch), in education (95%), in cultural, amusement and recreational activities (74%) or in other services activities (86%), where is found for example hairdressing or repairs of products for personal use. Impact in the two most frequent branches among entrepreneurs was also significant – construction (56%) and trade (66%).

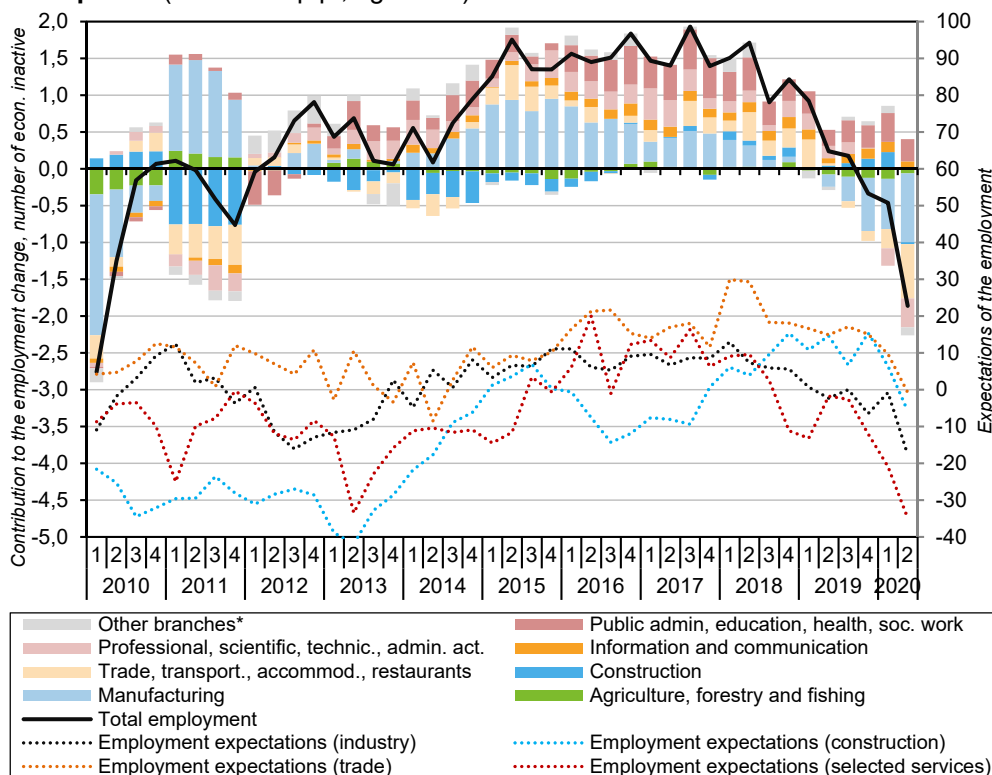
Expectations of employment development remained negative, especially in industry and majority of market services.

April it deepened to not yet seen 22% (31% for entrepreneurs). The descend decreased in May (to 8%) and July already signalled a return to paces from the turn of years 2019 and 2020 (-2%), which however was not completely valid for small businesses (-6%), where the effect of weakened demand was more evident. Expectations of businesses in the area of employment stayed in the majority of branches negative. It was valid for market services (except for trade), where the proportion of businesses anticipating growth of employment in the next three months was by 33 p. p. lower than the share of businesses planning to reduce employment levels in August 2020. This balance remained distinctly negative despite weakening pessimism also in industry (-12 p.p.). Businesses in trade (-5 p.p.) and mainly construction (+2 p.p.), where a large proportion of businesses did not anticipate changes in employment (87%) were in better situation. Still around 40% of construction firms considered the lack of workers as a barrier to growth even in the summer period.

Growth of the number of economically inactive drastically accelerated.

Changes on the labour market were reflected more than in the unemployment in enlarging the number of economically inactive H1. Even though the number of inactive was growing also for the most part of the last year, significant acceleration of the year-on-year pace occurred only this year. The increase was 59 thousand persons at the beginning of the year, already 86 thousand in Q2 (the most in the CR history). Mainly males aged 60 and more years (+25 thousand) and females aged up to 30 years (+33 thousand) contributed to the record growth. These groups typically more often utilise part time job contracts and temporary employment.

Chart 13 Total employment (year-on-year in %), contributions of main branches to year-on-year employment change (in p.p.) and expectations of employment development (balance in p.p., right axis)



* Mining and energetics; Financial and insurance activities; Real estate activities; Arts, entertainment and recreation activities; Note: Balance of expectations expresses the difference in p.p. between categories (growth vs. decrease of employment in the next three months). Data are seasonally adjusted and relate to the last month of the given quarter. Source: CZSO (national accounts, business cycle surveys)



<p>General unemployment rate increased only slightly; the rate grew faster for males.</p>	<p>General unemployment rate⁵ went mildly up during Q2. It was 2.7%, while the difference between genders (0.3 p.p.) was one of the smallest in the monitored time series since year 1993. The unemployment of males rose by 0.8 p.p. since the beginning of this year, by 0.6 p.p. for females. It can seem surprising at first sight, since the recession hit more the branches of services with the predominance of employed women in its first phase. Onset of unemployment of females was softened by the option to draw care benefits⁶ for the reason of closing schools and other facilities. Positive fact was that even long-term unemployed were still finding work. Their share on total unemployed neared 20% (the lowest level since half of 90s). However, the balance of expectations of growth of unemployment in the economy (in the upcoming twelve months) among households sharply hiked up and it got to the level last observed in year 2012⁷ in Q2.</p>
<p>Expectations of households regarding the unemployment growth sharply hiked up.</p>	<p>Number of job vacancies in the supply of labour offices did not feature any significant changes during H1. It equalled 334 thousand at the end of June and fell by 3.5% year-on-year (nevertheless by 15% for positions requiring higher than primary education). More than one third of positions was vacant for more than one year. Total supply of job vacancies decreased in manufacturing (in servicing machinery and equipment), in trade or administrative as well as support service activities. As a result of difficult mobility of foreign workers, the number of vacant jobs expanded in the primary sector. Growth of the total supply of job vacancies occurred in Prague (+15%) and central Bohemia (+12%), for the overwhelming part it consisted of low-qualification manual positions (for persons with primary education).</p>
<p>Number of registered job vacancies only slightly fluctuated. Higher increase occurred in Prague and central Bohemia.</p>	<p>Mild reaction of the labour market to the economic shock can be observed in the majority of EU countries⁸ for now. The unemployment rate⁹ rose by 0.6 p.p. (without significant differences between males and females) during H1, it arrived at 7.1% in June. Only three states avoided decrease (Ireland, France, Italy), on the contrary Estonia, Latvia, Lithuania and Croatia registered growth within the range of 2.5 to 3.5 p.p. Interestingly also, a lowest GDP decrease eventuated in the Baltic states compared to the EU members in Q2. Frequent employment in the affected branches as well as large share of more flexible job contracts led to higher increase of unemployment of young persons (aged up to 25 years) in the EU in H1 (+3.0 p. b. for females, +1.4 p.p. for males). It increased the most in Estonia (+14 p.p.) and Spain (+10 p.p.), where it reached maximum among the Union members (42%)¹⁰. Sweden, Luxembourg, Croatia and Portugal registered larger shift (by more than 7 p.p.). The shift was below 4 p.p. in the CR, unemployment still ranked among one of the lowest even in this age group in the whole EU (CR 8.6%, Germany 5.7%, EU 16.9%).</p>
<p>Total unemployment rate increased only slightly in majority of the EU states for H1. It grew faster for persons up to 25 years.</p>	<p>So called hidden unemployment increased significantly in the EU already during Q1. Differences between the EU states in the existing impacts of the shock on the labour market were influenced by the speed as well as intensity of adopted counter pandemic measures, branch structure of the economy as well as extent of government stabilisation measures aimed at both employers and small-scale entrepreneurs. Data for Q1 already suggest, that the transfer of employed among economically inactive was the most significant flow on the Union labour market¹¹. Part of these inactive can be at the same time regarded as hidden</p>

⁵ For persons aged 15–64, value after seasonal adjustment. All given unemployment data are sourced from the data of Labour Force Sample Survey.

⁶ Total drawing of care benefits was 9.1 CZK bn from March till July of this year, it was only 0.6 bn in the same period of the last year.

⁷ According to data from business cycle surveys, e.g. persons with higher level of education, persons aged 50 to 64 or persons working in groups based on the classification ISCO 1-5 (managers, specialists, technical and specialised workers, workers in services and trade) recorded higher than average balance (+47 p.p.) in August 2020. Higher expectation of unemployment does not necessarily mean expectation of worsened financial situation of the given person or household.

⁸ It was also valid for example about Japan. On the contrary, the labour market reacted very fiercely in the USA. While unemployment reached here 4.4% in March, it accelerated to 14.7% in April. Only small correction occurred in the subsequent months, but the June value still exceeded 11% and it was by more than 1 p.p. above the level from the recession peak from years 2009 to 2010.

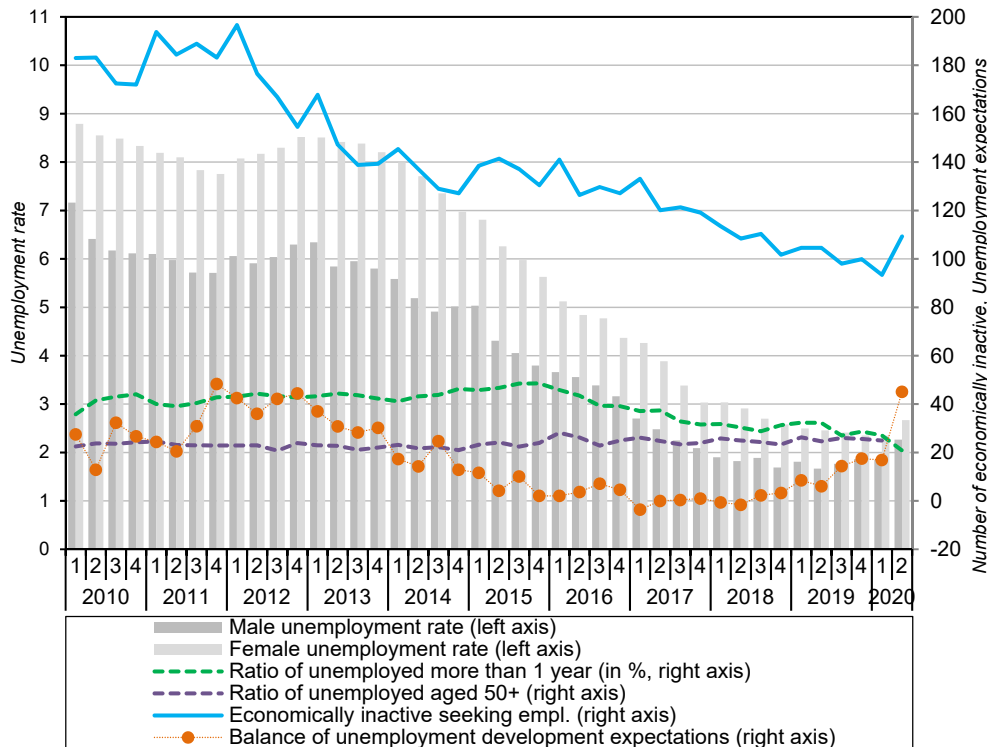
⁹ Relates to persons aged 15–74, all data regarding unemployment describe reality after seasonal adjustment.

¹⁰ It reaches high level also in Greece in the long term, for which the most current this year's figure relates to May (37.5%).

¹¹ According to the LFSS, it concerned 3.9 mil of citizens (aged 15 to 74 years), which were employed in Q4 2019 and were counted among inactive in the following quarter. The flows between inactivity and unemployment were in the same period nearly equal (3.2, resp. 3.3 mil.). Relations between employment and unemployment appeared still mildly in favour of employed at the beginning of the year (+0.4 mil.), however

unemployed¹². Their ratio to the total number of economically active increased from 6.8% to 7.4% compared to Q4 2019 and attained high values even compared to “classical” unemployment in some states (Italy, 14.7%, Finland 10.6%), however very low 0.9% in the CR.

Chart 14 General unemployment rate (in %), ratio of long-term unemployed and persons aged 50 and more among unemployed (in %), economically inactive willing to work (in thousand)* and unemployment expectations of households (in %)**



Note.: Figures regarding the unemployment rate are seasonally adjusted, other data are not.
 *Persons not in employment, not seeking work, but expressing the willingness to work.
 **Seasonally adjusted balance of expectations of unemployment in the next 12 months (difference between percentage frequency of answers of households “growth” and “decrease” expressed in percentage points. Data relate to the last month of the given quarter.
 Source: CZSO (LFSS, business cycle surveys)

Size of average wages dropped by 3.1% quarter-on-quarter and partially reflected the deeper slump of the number of hours worked.

In the year-on-year expression, mild growth of wages persisted. Factors preventing fast

Restriction of operations as well as temporary closing of some businesses especially in the area of market services or manufacturing (as a consequence of both quarantine measures and longer-term decrease of demand) must have manifested also in the wage area. The size of average wages (after seasonal adjustment) dropped to record 3.1% in comparison to the preceding quarter in Q2 (it still grew by 1.1% in Q1). In the year-on-year comparison the wage growth nearly halted (+0.5%), lower dynamics was comparable in the 20year time series only during year 2013, when however, the rates of growth were artificially oscillated¹³. Weaker wage growth rates partially mirrored the steeper fall of average hours worked¹⁴. The administrative influences (raising of the minimal wage and bands of guaranteed wages) as well as the tense condition of the labour market at the beginning of the year (characterised among other things by the lack of labour force), which partially prevailed in

as the first estimations from the national accounts clearly indicated, a sharp decrease of the number of employed (year-on-year as well as quarter-on-quarter by nearly 3%) occurred in the EU in Q2.

¹² It concerns persons ready to enter employment, who however do not actively seek job, further persons who seek employment, but are not able to join it within 14 days (because of this they do not fulfil condition of being ranked among unemployed) and finally also so called underemployed i.e. those who do have a job, however work involuntarily part time (e.g. for the reason of lack of work at their employer).

¹³ It was a consequence of transfer of payment of non-mandatory wage components of part of high-income workers for the purpose of tax optimization.

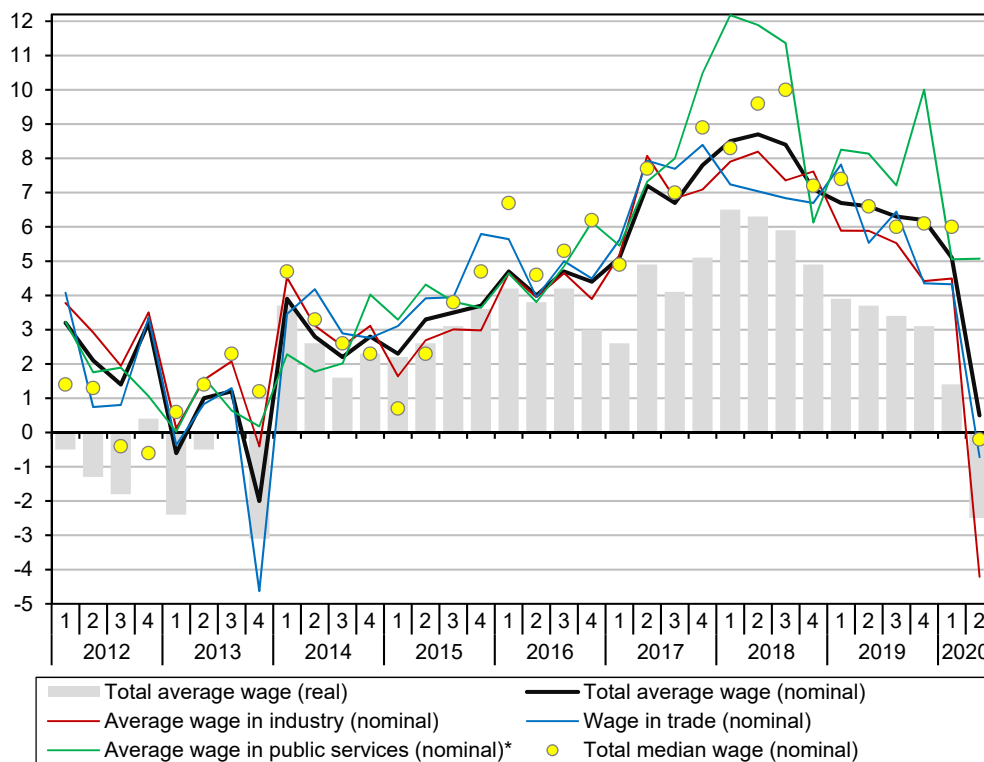
¹⁴ State partially contributed to businesses afflicted by the impacts of the coronavirus crisis after fulfilment of certain conditions (e.g. preserving job positions) on employee wages (programme Antivirus). Persons were drawing these wage compensations due to work barriers caused by the pandemics. On the contrary persons who did not work for the reason of drawing of care benefits or ordered quarantine received transfers from state, which are methodically not part of wages (their drawing thus worked against the growth of the average wages).



downturn of the wage dynamics still worked.

some branches also in the summer period, prevented deeper reduction of the size of earnings. Rigidity of wages (existence of longer-term internal contracts of enterprises regarding the growth of wages or the tariff system in the public sphere) also played a role. It cannot be excluded, that the worsened economic situation of businesses could have been reflected also in the reduction in the area of non-wage employee compensations this year.

Chart 15 Average nominal and real wage and wage median (year-on-year, in %)



* Includes branches: Public administration, defence, social security; Education Human health and social work activities; Arts, entertainment and recreation activities.
Source: CZSO

Wage development at the level of branches was very varied in Q2.

Markedly uneven primary impact of counter pandemic measures as well as different flexibility of various segments of the labour market (e.g. tie of the volume of earnings to the number of hours worked) were reflected in the very differentiated development of wages at the level of individual branches in Q2 2020. It is not surprising, that the average wages fell the most in the strongly hit branch accommodation, food service and restaurants (-11.8%) year-on-year. This development was in addition amplified by even deeper reduction of the registered number of employees, volume of paid out wages thus dropped by one quarter here. The average wage went down by 6% in the real estate activities. Higher wage basis of the last year and also the swift growth of employment this year (still it presented the smallest branch of the services section – given the number of employees) both had an effect. Transporting and storage also belonged to the strongly affected branches, where the decrease of wages (-1.7%) was overshadowed by deeper reduction of employee positions (-4.2%). Already last year signalled a light decrease (mainly of employment) in this branch, specifically in connection to weakened performance of industry as well as associated demand in the freight transportation. The decrease of wages as well as employment was compared to the before mentioned branch approximately only one half in trade. The situation here was likely very different, depending on the size of the business. Adverse development was notable in the branch other services activities (including for example hairdressing), total volume of paid out wages shrank by more than 8%. It was also lower especially due to the reduction of the

Restrictive measures impacted the most accommodation, food service and restaurants, where the volume of paid out wages dropped by one quarter.

number of workers by 6.5% in cultural, amusement and recreation activities¹⁵. Administrative and support service activities, which are in the conception of enterprise statistics formed mainly by the agency workers, is also necessary to include among more hit branches. Dismissals of low qualified workers¹⁶ led here next to the increase of the minimal wage to the growth of the average wage (+4.2%). This development was closely tied to the situation in manufacturing. Several weeks interruption of production mainly in the companies of motor vehicle industry resulted in the considerable year-on-year decline of hours worked by employees (-13.6%) in Q2. Volume of paid out wages slumped by one tenth, which was equally caused by the loss of job positions and lower average wage.

Energetics, information and communication and public services maintained brisk growth of the average wages.

Construction was not at first affected by the onset of recession, both employment and average earnings stagnated here in Q2. Energetics, where as in the only main branch the year-on-year growth of wages did not slacken compared to the pace from the same period of the last year (+5.3%) also prospered. The size of average gross monthly wage approached the boundary of 50 CZK thousand here, it featured the largest increase among all branches (by 2 471 CZK). Employees of information and communication were also by 3.5% better off, their earnings were already 3.5 times higher compared to workers in branch accommodation, food service activities and restaurants. The wage growth ceased in financial and insurance activities this year (-0.6%). The impact of high last year basis, when the pace of average wages exceeded 8% was also evident next to the decrease of the profitability of the financial sector. The wage growth slightly overstepped 5% in the services with the dominance of the public sector and the achieved wages level surpassed the level of the whole economy (34 271 CZK) by one tenth in Q2. Pace of wages was also influenced by the extraordinary increase of compensations for overtime work in some very busy fields (health care).

Total wage differentiation considerably widened in Q2.

Above mentioned development led to the widening of scissors of wage differentiation. While the lowest wage decile fell by 1.7% year-on-year in Q2, value of the highest decile increased by 2.2%. The wage median recorded the first decrease since the end of year 2012 (-0.2%). It was falling faster for males (-1.0%), still the achieved median earnings of males exceeded those of females by 16% (resp. near 5 thousand crowns).

Real wage decreased after more than six years.

Weaker dynamics of nominal wages during the first half of year 2020 contrasted with the swift growth rate of growth of consumer prices not losing strength. Average wage dropped by 2.5% in real terms in Q2. More than six years prevailing growth of the purchasing power of employee earnings was thus interrupted.

¹⁵ The average wage was falling slower here in Q2 (by 1.3%). It was also connected to the fact, that approximately half of employees belongs to the so-called wage sphere in this branch and their compensations are then tied to the public budgets.

¹⁶ Number of employees fell by 12% here year-on-year in H1 2020, similarly to the crisis year 2009.

