

## ANALYSIS

11 March 2013

### COMMENTARY: DEVELOPMENT OF AVERAGE WAGES OF EMPLOYEES IN Q4 2012

While in first three quarters of 2012 the growth of average nominal wages was slowing down, in the last quarter 2012 an entirely exceptional development in wages occurred. The reasons for can be seen not in rapidly improved economic conditions of enterprises yet in a change to tax legislation leading towards rectification of the degressive taxation of the highest incomes, which has been in force since the beginning of 2013. The growth of the average nominal wage by 3.7% was strongly affected by a substantial increase in extraordinary bonuses, first of all, of the best paid workers. Therefore, it may be assumed that some enterprises used the opportunity at the end of the last year to pay in advance extraordinary bonuses to their managers, which are otherwise used to be paid in first months of the next year.

From the analytical point of view, this is a mirror effect to the development at the turn of 2007 and 2008 when the so-called ceilings of the health and social insurance were introduced. It can be calculated by analysing time series there was an exceptional transfer of approx. CZK 20 billion for wages from Q4 2007 into 2008.

Now unusual results emerge in financial and insurance activities, in which the wage growth by 24.1% in Q4 2012 does not correspond to results in the three previous quarters (3.7%). The second highest disproportion can be found in economic activities of electricity, gas, steam and air conditioning supply at the level of 13.1% in Q4 2012 compared to -0.4% in the previous three quarters.

The wage growth was slowing down in economic activities dominated by government, i.e. in human health and social work activities, education, and in public administration and defence; compulsory social security, in which likewise "optimizations" cannot be expected. A drop in the average nominal wage reoccurred in real estate activities (-4.4%). Conversely, agriculture recorded an above average growth of wages in all four quarters of 2012. Manufacturing, which is the largest industry concerning employment, showed in Q4 2012 a wage growth slightly higher than in the two previous quarters, yet lower than at the beginning of the year.

The aforementioned discrepancies in economic activities were also reflected in the disproportion in between the business sphere and the non-business one, which in Q4 2012 experienced a drop by 1.5%, in real terms, due to inflation. The business sphere, on the contrary, owing to facts already mentioned, demonstrated an increase by 1.4% in real terms.

In Q4 2012 the registered number of FTE employees decreased by 1.1% compared to the same period of the previous year and this means it dropped by 39.9 thousand persons.

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### Increases/decreases as at the same period of the previous year for average nominal wages by section of CZ-NACE; respective quarters of 2013 and the whole year 2012

ECONOMIC ACTIVITY according to CZ-NACE	2012				
	Q1	Q2	Q3	Q4	Year
<b>TOTAL</b>	<b>3.4</b>	<b>2.3</b>	<b>1.5</b>	<b>3.7</b>	<b>2.7</b>
A Agriculture, forestry and fishing	6.4	5.1	3.2	4.6	4.8
B+C+D+E Industry, total	4.0	3.2	2.1	4.1	3.4
B Mining and quarrying	5.9	1.8	2.5	4.5	3.6
C Manufacturing	4.4	3.5	2.2	3.7	3.4
D Electricity, gas, steam and air conditioning supply	-2.3	0.4	1.2	13.1	3.2
E Water supply; sewerage, waste management and remediation activities	0.7	1.5	-0.9	2.3	0.9
F Construction	2.7	-2.5	0.4	1.3	0.4
G Wholesale and retail trade; repair of motor vehicles and motorcycles	3.0	0.3	0.2	3.0	1.6
H Transportation and storage	0.6	0.3	-0.8	2.0	0.5
I Accommodation and food service activities	1.5	-1.0	-2.5	1.3	-0.3
J Information and communication	1.9	3.6	4.1	5.4	3.8
K Financial and insurance activities	3.0	5.1	3.0	24.1	8.7
L Real estate activities	-3.9	-4.2	-7.7	-4.4	-5.1
M Professional, scientific and technical activities	4.4	3.0	-2.0	4.1	2.3
N Administrative and support service activities	1.2	1.2	-0.2	2.5	1.2
O Public administration and defence; compulsory social security	2.2	2.2	0.8	1.2	1.6
P Education	4.6	2.0	3.6	0.8	2.6
Q Human health and social work activities	5.6	4.3	2.7	0.0	3.1
R Arts, entertainment and recreation	3.0	3.9	4.8	11.4	5.9
S Other services activities	2.0	3.4	0.6	1.8	1.9

The cumulated data for **the whole year 2012** indicate a nominal increase in the average wage by 2.7%, year-on-year (y-o-y) yet if inflation (3.3%) is taken into account wages actually declined by 0.6% in real terms. The real purchasing power of employees in the business sphere decreased slightly (-0.5%) because wages in this sphere are determined by market forces. The non-business sphere, in which salaries are determined rather by administrative decisions, showed a deeper drop (-1.1%). The adverse development for over the whole period is even more illustrated by a decline in the number of employees in both the spheres by 0.9% (33.2 thousand persons) in total. The only industry, that showed a significant increase in the number of employees, was real estate activities (by 7.6%) yet accompanied by a decrease in their average nominal wage by 5.1%.

When comparing absolute levels of earnings one must keep in mind that these two spheres feature different structure of jobs and very different types of work are performed within them.

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