

## ANALYSIS

5 September 2014

### Commentary: Labour Market Development in Q2 2014

Results of the statistics for Q2 2014 indicate a continuing fragile recovery on the Czech labour market. Data of the Labour Force Sample Survey (LFSS) in households demonstrate a slowdown of a growth in the total employment; nevertheless, unemployment has decreased in a significant manner. The second most important source, results of the CZSO business statistics, show the trend of a declining number of registered employees was halted. More developed positive tendencies therefore transfer the labour force from marginal areas of the labour market into stable jobs, which is a sign of real recovery. The fact relates also to a growth of nominal as well as real wages. Employers have been becoming more competitive in searching for the labour force and namely in certain economic activities a lack of professionally qualified working persons appeared, which forced employers to increase wages.

Results of the LFSS show a continuing year-on-year growth of the total employment, which however, has already been fading fast. A decline in the number of employees in subordinated positions happened at the expense of a growth of the number of the self-employed (entrepreneurs and own-account workers) but these numbers are very small and therefore cannot reveal any trend. The growth in employment was demonstrated solely in the secondary sector of the economy. A rather more pronounced trend is a decline in the number of the unemployed, which was shown both in males and in females. If a decline in reserves of economically inactive persons and an increase in vacant jobs are added, it is clear that the Czech labour market experienced unambiguous recovery in Q2 2014 and imbalance of supply and demand became to be reduced. Certain adverse impacts of geopolitical conditions were not able to show their influence in this period yet.

The detailed business statistics also confirmed the positive trends. While in 2013 there was a decline in the average number of registered employees (full-time equivalent) by 1.2%; in Q1 2014 this number already grew by 0.2% and in Q2 2014 it increased even by 0.6%, which means +22.7 thousand persons. Trends in respective sections of the economy are different, for instance, in construction there was still a significant year-on-year drop (-4.8%) and mining and quarrying and accommodation and food service activities lost even 6.6% and 2.7%, respectively. On the contrary, a continuous growth was demonstrated in real estate activities (+4.8%) and in administrative and support service activities (+4.4%). There was also an increase in the Czech largest economic activity of manufacturing when the number of occupied jobs in this activity increased by 16.9 thousand (+1.6%). The number of employees in wholesale and retail trade; repair of motor vehicles and motorcycles grew by 0.1% year-on-year; the number of jobs in agriculture stagnated.

In public administration and defence; compulsory social security the number of employees increased by 3.9 thousand, which is by 1.4%. In a more detailed breakdown there can be seen a drop in the number of employees of the central government (ministries) by 1.2 thousand, while an important increase by 3.2 thousand can be seen in municipal authorities, where it is mostly

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an influence of public benefit work. The increase of capacities of the labour offices dedicated to combat unemployment, where 1 344 jobs were created year-on-year, showed also a significant effect

**Concerning wages** in Q2 2014 the effect of prepaid managerial bonuses from the end of 2012 was virtually exhausted and therefore the wage development can be evaluated by means of annual indices with no distortion. It was revealed that an acceleration of the wage growth was real, especially in the business sphere.

The total nominal increase by 2.3% was, moreover, combined with a minimum increase of consumer prices by 0.2%, which led to a real increase in the average wage by 2.1%, that is the highest one since 2009 (except for the distorted index for Q1 2014).

The growth in earnings is hampered by the non-business sphere, in which the average wage grew nominally by 1.7%, that is 1.5% in real terms after inflation deduction. In the business sphere the average wage grew nominally by 2.5%, which is by 2.3% in real terms.

The wage development in respective economic activities (CZ-NACE sections) was varied with nominal increases within the interval of 0.7% and 3.9%. The least growth demonstrated wages in the S section, which hosts activities of societies and associations, small repairs, and providing of various personal services; a very weak increase was also in water supply; sewerage, waste management and remediation activities (0.8%) and in education (0.9%).

On the contrary, the highest growth (by 3.9%) enjoyed employees in wholesale and retail trade; repair of motor vehicles and motorcycles. In manufacturing, which is the largest economic activity in the Czech Republic by the number of employees with 1 060.9 thousand employees, the average wage also grew by almost three per cent, that is at an above average pace.

Further unquestionable signs of recovery are increased overtime hours in the business sphere, which appeared almost in a uniform way across all activities but agriculture, and a growth of extraordinary bonuses compared to the same period of the previous year. The latter affected average wages namely in the tertiary sector (especially in trade); it was only construction where a slight decrease was observed.

The related News Release includes also data on the **median wage** calculated from a mathematic model of earnings distribution. The median wage demonstrates a wage of the employee in the middle of the interval that is the common wage level. In Q2 2014 the median wage was CZK 21 385, which is by CZK 413 more (by 2.0%) than in the same period of the previous year. Thus the wage level of the middle employee increases a bit less than the arithmetic average wage and indicates the growth of earnings is disproportional.

The wage interval remained quite wide as eighty per cent of employees earned wages within the interval of CZK 10 295 and CZK 41 037. The year-on-year development shows relatively higher increases in wages in the lowest zone, which is probably caused by the increase of the minimum wage since 1 August 2013. Concerning sexes the increase in wages was rather more pronounced in females, whose wage level is lower. Very high earnings also grew faster than those in the middle zone.

Concerning regional structure the highest year-on-year average wage growth by 3.7% was recorded in the Zlínský Region in Q2 2014. On the contrary, the average wage increased the

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least in the Hlavní město Praha Region by 1.4% only. In four Regions of the Czech Republic the numbers of employees were reduced – in the Karlovarský Region (-0.7%), Královéhradecký Region and Moravskoslezský Region (identically -0.4%), and the Jihočeský Region (-0.2%) Conversely, the numbers of employees significantly grew in the Plzeňský Region (1.4%) and in the Středočeský Region (1.3%).

\* \* \*

When viewed as **the first half of 2014** the nominal average wages grew by 2.8%, which combined with a significantly low inflation rate (0.2%) brought a real increase of purchasing power of earnings by 2.6%. This, however, does not mean the same to both the spheres. In the non-business sphere the growth was less significant where the average wage increased merely by 1.7% in real terms. The business sphere achieved a better result where the real growth of the average wage reached 2.8%, yet of course, also due to the effect of payments of managerial bonuses in Q1 2014, which affected results in the first half year.

\* \* \*

Data on the median wage, earnings distribution, and breakdown by personal characteristics for the first half of 2014 can be obtained from the **preliminary results of the Average Earnings Information System (ISPV)**, which however applies a different methodology for the calculation of personal earnings of employees. Therefore these data may not be compared to values given in tables accompanying the News Release of the CZSO.

The median wage, according to the ISPV methodology, reached the value of CZK 22 366 in the first half year. Eighty per cent of employees earned wages within the interval of CZK 11 982 and CZK 41 335, and the decile ratio was 3.45 and so remained virtually at the same level of that for the previous year.

The middle wage level for women (median wage CZK 20 340) was substantially lower than that for men (median wage CZK 24 060); and earnings inequality in women was also lower than that in men: the decile ratio for women was 3.1 while the men decile ratio was 3.6.

When broken down by educational attainment employees with higher education earned the highest earnings, their median wage was CZK 32 983. Employees with basic or no education had the lowest wages (CZK 16 040). Employees having secondary education with A-level examination earned more (CZK 23 357) than employees having secondary education without the A-level examination (CZK 18 844), yet less than employees with completed higher professional school or with bachelor degree (CZK 26 459).

The higher the wage level the higher the earnings differentiation: 80% of university graduates earned wages within a broad interval of CZK 20 170 and CZK 74 440 and their decile ratio was then 3.7. Conversely, 80% of employees with basic education earned wages within the span of CZK 10 094 and CZK 25 827. Almost 90% employees with secondary education without A-level examination earned wages below CZK 30 000 as well.

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When broken down by age group employees up to 20 years of age earned the lowest wages with the middle employee wage of CZK 14 635 while in the age group 30-39 years the median wage was CZK 23 230.

According to the valid Classification of Occupations (CZ-ISCO) managers were the group with highest earnings having the median wage of CZK 41 325 and a wide decile span from CZK 19 628 to CZK 111 761. The second highest wage level can be found at professionals lying in between deciles of CZK 20 867 and CZK 62 255, while their median wage is CZK 29 941. The third rank is occupied by technicians and associate professionals with the median wage of CZK 26 294 and the decile range from CZK 15 913 to CZK 43 989.

Service and sales workers had the decile range from CZK 10 102 to CZK 26 490 and their median wage was CZK 14 833. Craft and related trades workers, and plant and machine operators and assemblers have their median wages CZK 21 080 and CZK 20 455, respectively. The lowest wage level can be found in general at elementary occupations with the median wage CZK 13 619 and the decile range from CZK 9 266 to CZK 21 982.

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