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5 June 2014

Commentary: Labour Market Development in Q1 2014

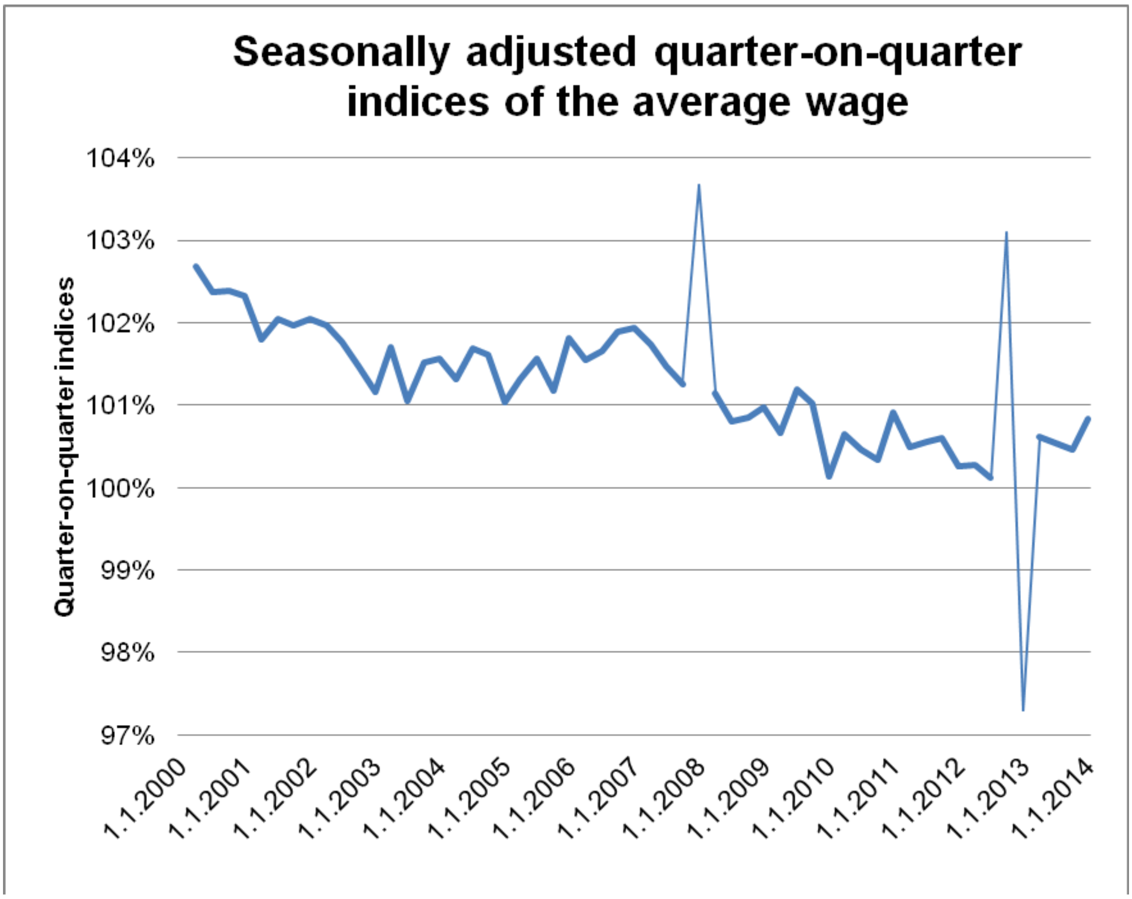
Development on the Czech labour market in Q1 2014 shows prudent recovery. Results of the Labour Force Sample Survey (LFSS) in households demonstrate a continuous growth in the total employment since 2012. Preliminary results of the CZSO business statistics recorded a humble increase by 4.6 thousand persons (0.1%) in the registered number of employees as late as in Q1 2014. Moderation also persists in wages, the average wage growth by 3.3% relates mostly to payments of managerial bonuses moved on the traditional date at the beginning of the year.

The discrepancy in employment trends found by Labour Force Sample Survey and in processing of official business information can be explained by means of a more detailed analysis taking into account differences in methodology of the two sources. The LFSS measures all works for earnings, both of short-term and precarious nature (as, for instance, agreements on work and on work activity, temporary and summer jobs, yet also moonlight jobs). On the contrary, the registered number of employees shows solely employees of enterprises and organisations having a standard contract of employment. Therefore the discrepancy in trends indicates that the grey employment zone, that includes the black work as well, has been expanding and security at work has been depleting.

If viewed from respective economic activities the trend of increasing employment is ambiguous. Results of the business statistics indicate that construction, in which 12.9 thousand jobs disappeared that means a drop by 6.1%, has been still suffering from recession. On the contrary, the number of employees grew in manufacturing and agriculture by 0.8% and 0.4%, respectively. Conditions in the sector of services are more optimistic, except for accommodation and food service activities, which saw a drop by 3.0%, and also financial and insurance activities (-2.2%) and transportation and storage (-1.3%).
Administrative and support service activities underwent a significant increase in the number of employees by 5.4 thousand, which is more by 3.6%. In real estate activities the number of employees increased by 2.0 thousand, which is a relative increase by 4.7%.
The number of employees in the public administration and defence; compulsory social security grew by 1.0%, yet this does not hold for bodies of central government, which were streamlined by approximately seven hundred persons, but the increase occurred at the level of regions and municipalities (effects of public benefit work) and also improved capacities of labour offices dedicated to combat unemployment.

The year-on-year nominal increase in the **average wage** in Q1 2014 by 3.3% is affected by a low comparison basis of the previous year when in Q1 2013 there were missing wage resources for bonuses that were paid in advance in Q4 2012 due to changes in tax legislation. This factor shows a very strong effect in certain activities of the business sphere. The model of seasonal adjustment of the time series, however, shows a rather faster growth even without this effect. The average wage grew nominally quarter-on-quarter by 0.8%, which is the highest number in the last three years (without any distortions caused by changes in tax legislation), see the graph below.

The long-term trend demonstrates that a very low wage pace pertains when in the two recent years the average wage has grown by 2.8% while inflation was two per cents. Therefore concerning development in purchasing power the halted growth of consumers prices (inflation), which reached the index value of 100.2, is important. In previous years inflation negated increases in wages so real purchasing powers of earnings were decreasing, even though a nominal increase in wage was significant.



In the non-business sphere, dependent on the state budget, the average wage grew nominally year-on-year by 2.2% and by 2.0% in real terms. In the dominant business sphere, in which wage development is more fluctuating as a rule, because it is affected by up-to-date market conditions – and in Q1 2014 also by the payment of managerial bonuses – the index value was higher for the latter as well: a nominal growth of the average wage reached 3.6%, which is a growth by 3.4% in real terms. The effect of the increased share of extraordinary bonuses in the average wage was indicated in all activities of the business sphere, most in market services, especially in banks. In the business sphere the share of overtime work also increased year-on-year, which may be considered as an important signal of recovery of real economy.

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Concerning respective economic activities development has been much differentiated. This is even more seen in a long-term comparison. As it was mentioned, the last year-on-year indices are distorted again by the moved payment of managerial bonuses at the beginning of the year. Let us have a look at growths of the real wage since Q1 2008 to this date.

Over the entire period of economic recession the real wage increased in total by 3.6%. Economic activities, in which the overall increase was above average, are clearly human health and social work activities (+10.0%), in which there was an important increase already in 2009 and 2010, and then electricity, gas, steam and air conditioning supply (+9.5%). Conversely, low values of total indices can be found especially in financial sector, which was the source of recession and in which the average wage dropped by 12.5%, yet nevertheless it remains the highest of all economic activities; and in public administration and defence; compulsory social security in which it fell by 2.8% and which suffered from budgetary savings. Negative average wage indices can further be found in construction (-1.1%) and administrative and support service activities (-0.5%); the increase in mining and quarrying was mere 0.1%.

Year-on-year indices of the average real wage in Q1 of a given year by CZ-NACE section

		2009	2010	2011	2012	2013	2014	Total
A	Agriculture, forestry and fishing	96.3	102.2	101.7	102.4	98.9	104.2	105.6
B	Mining and quarrying	92.4	105.7	103.2	101.5	95.3	102.7	100.1
C	Manufacturing	96.9	104.9	102.4	100.1	98.8	104.1	107.2
D	Electricity, gas, steam and air conditioning supply	108.0	102.7	102.0	98.6	95.1	103.2	109.5
E	Water supply; sewerage, waste management and remediation activities	98.2	105.9	98.9	99.9	97.0	101.4	101.1
F	Construction	100.3	98.6	102.6	98.4	96.6	102.5	98.9
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	98.1	101.8	101.6	100.4	98.1	102.4	102.3
H	Transportation and storage	102.8	100.4	99.4	97.9	97.9	103.0	101.3
I	Accommodation and food service activities	96.2	105.9	99.3	98.0	100.7	102.5	102.3
J	Information and communication	101.7	98.7	103.5	97.6	98.3	104.4	104.1
K	Financial and insurance activities	94.4	97.9	101.6	97.2	87.3	109.8	87.5
L	Real estate activities	94.5	105.2	103.3	100.4	95.7	101.5	100.2
M	Professional, scientific and technical activities	109.6	90.8	104.2	98.9	96.7	101.3	100.5
N	Administrative and support service activities	100.2	99.2	102.3	100.1	96.0	101.8	99.5
O	Public administration and defence; compulsory social security	101.6	102.3	94.2	98.5	98.3	102.5	97.2
P	Education	102.4	102.0	99.7	100.9	98.0	101.6	104.6
Q	Human health and social work activities	104.2	105.6	101.2	99.9	97.9	101.0	110.0
R	Arts, entertainment and recreation	97.2	106.8	98.3	97.9	99.2	102.5	101.6
S	Other service activities	96.5	100.1	104.7	98.2	99.2	102.2	100.7

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Concerning regional structure the highest year-on-year nominal wage growth by 4.3% was recorded in the Zlínský Region in Q1 2014. On the contrary, the average wage increased the least by 2.6% in the Hlavní město Praha Region, followed by 2.7% in the Karlovarský Region.

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Since the last year the News Releases provide data on **median wages** on regular basis. They are calculated by a mathematical model of earnings distribution, show the wage of an employee in the middle of the distribution, and are sorted to total wages, and wages of men and women. Because the median wages demonstrate the middle wage level, that means the common one, the comparison of different wage levels by sex is more appropriate here than that by means of the average wages, which are significantly affected by the zone of the highest earnings.
As a result of the fact the median wage in Q1 2014 was by more than four thousand Czech crowns lower than the arithmetic average of wages (average wage was CZK 24 806) and was CZK 20 764. Eighty per cent of employees earned wages within the interval of CZK 10 006 and CZK 39 768, and the decile ratio was 4.0.
The middle wage level for women (median wage CZK 18 651) was substantially lower than that for men (median wage CZK 22 600); and earnings inequality in women was also lower than that in men: the decile ratio for women was 3.5 while the men decile ratio was 4.1.

The fastest year-on-year nominal growth was recorded in wages of the best paid males (by 4.5%), undoubtedly as a result of paid managerial bonuses. The lowest growth was found in the middle wage zone of females (2.4%).

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The Governemnt of the Czech Republic by its decision increased the **minimum wage** to CZK 8 500 since 1 August 2013.

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