

## ANALYSIS

4 December 2018

### Development on the Czech Labour Market in Q3 2018

The Czech labour market has been stabilised at its climax despite the economic growth deceleration. Preliminary results of the Labour Force Sample Survey (LFSS), that is carried out in households, indicated a termination of the long-term growth trend is near because seasonally adjusted quarter-on-quarter indices showed a minute decrease in employment, yet statistical data have been still documenting a high level of economic activity of the population as well as lasting demand of businesses for the labour force. The strong growth in earnings, known from the first half of the year, was also ongoing and the average wage increased by 8.5%, year-on-year (y-o-y), but the real increase in wages was dampened by inflation to reach 6.0%. The median wage attained CZK 27 719 and the differentiation in wages was narrowed.

Preliminary results of the LFSS indicate domestic employment has culminated. In Q3 2018 the average number of the employed, seasonally adjusted, already recorded a minute decline. This shows the situation has been stabilised. There was an increase in the number of the employed by 44 thousand persons, year-on-year. The number of working persons, according to the LFSS, has reached 5.3 million persons this year.

Business demand for the labour force has been still extremely strong. The number of vacant jobs reported to labour offices reached the record breaking 317 thousand at the end of October 2018, while the number of available registered job applicants aged 15–64 years was 216 thousand persons. The share of the unemployed, the number the unemployed kept in the register of labour offices to the total population, declined to 2.8%.

In Q3 2018 the average number of the unemployed, as defined by the International Labour Organisation, was 127.0 thousand persons according to the LFSS, which means a quarter-on-quarter increase by 4.0 thousand persons. The unemployment rate also this way moved to a value of 2.4% in the aged 15–64 years. The number of the long-term unemployed was also steady at 36.0 thousand persons and therefore there were 28.5% unemployed persons without having a job from over one year. Viewed by region the highest unemployment was in the Moravskoslezský Region (4.0%), followed by the Ústecký Region (3.9%), while the lowest one was in the Capital City of Prague (1.3%) and then in the Jihočeský Region and Pardubický Region (identically 1.4% in both of them).

In the Czech Republic there is still, however, a significant number of persons, who do not work and do not seek a job in an active manner, yet in the LFSS interviews they state they would like to be working. This, so far unused, labour force reserve has been reduced by 11.0 thousand persons to reach 110.0 thousand persons and therefore it is virtually comparable in size to the group of the unemployed. Outside the Czech Republic there are large reserves of the labour force in the zone of free movement of persons within the European Union, where especially Southern Member States struggle with high unemployment of young people.

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Preliminary data of the CZSO business statistics supplement the described trends in the **growth in the number of registered employees**. In Q3 2018 there were by 47.5 thousand employees, as converted to full-time employees (FTE), more than in the same period of the previous year, which is a relative growth by 1.2%. This way their number reached the value of 4 064.2 thousand persons. This indicator also recorded a minute quarter-on-quarter decline, which happened in Q3 2011 for the last time.

The number of employees has not been growing in all of economic activities sections at all. One can find the deepest decline in 'mining and quarrying', which still experience complex conditions. In Q3 2018 the section experienced a decline in the number of employees by 0.6 thousand FTE employees, i.e. -2.3%, in. Other declines in numbers of employees fall within the interval of a half percent in sections of 'transportation and storage', 'agriculture, forestry, and fishing', 'construction', 'administrative and support service activities' and also in 'arts, entertainment and recreation'. This development probably relates to a high business demand for the lacking labour force when businesses just headhunt employees and this results in fluctuation, in which employees migrate to economic activities, in which they expect better working conditions and higher pay.

Economic activities of 'electricity, gas, steam and air conditioning supply' was the fastest "recipient" in hiring employees because their number increased by 6.2%. In absolute numbers it was mere two thousand persons, because these economic activities are among the smallest economic activities sections. The number of employees in 'information and communication' grew by 4.1%, meaning 4.7 thousand persons in absolute number. These two economic activities sections belong to those with high above average wage level.

The 'accommodation and food service activities' saw an increase in employees by 1.7 thousand FTE employees (+1.4%). This time it was the economic activities section of 'wholesale and retail trade; repair of motor vehicles and motorcycles' which showed the highest increment in the number of employees by 13.3 thousand FTE employees, i.e. by +2.7%, and the number of employees in this section exceeded the level of a half million employees in a significant manner. Manufacturing, which is by far the largest employer with 1 155.4 thousand FTE employees, recorded an increase in employment of "mere" 7.2 thousand persons, which is by 0.6% more. In 'education' the number of employees grew by 9 thousand persons (+3.2%).

Concerning **wages** this whole year features a strong growth. The average wage (CZK 31 516) increased nominally by 8.5% in Q3 2018, compared to same period of the last year, which is by one tenth of percentage point less than in two previous quarters.

Expressed in real terms the wage increase was somewhat weaker. Wages grew by 6.0%, while in the first half of 2018 they increased by 0.4 percentage point (p.p.) more. Inflation, expressed as the consumer price index, reached a value of 2.4%. One can find its comparable values in 2007 when the Czech economy, according to the GDP, was already behind the peak of its economic cycle.

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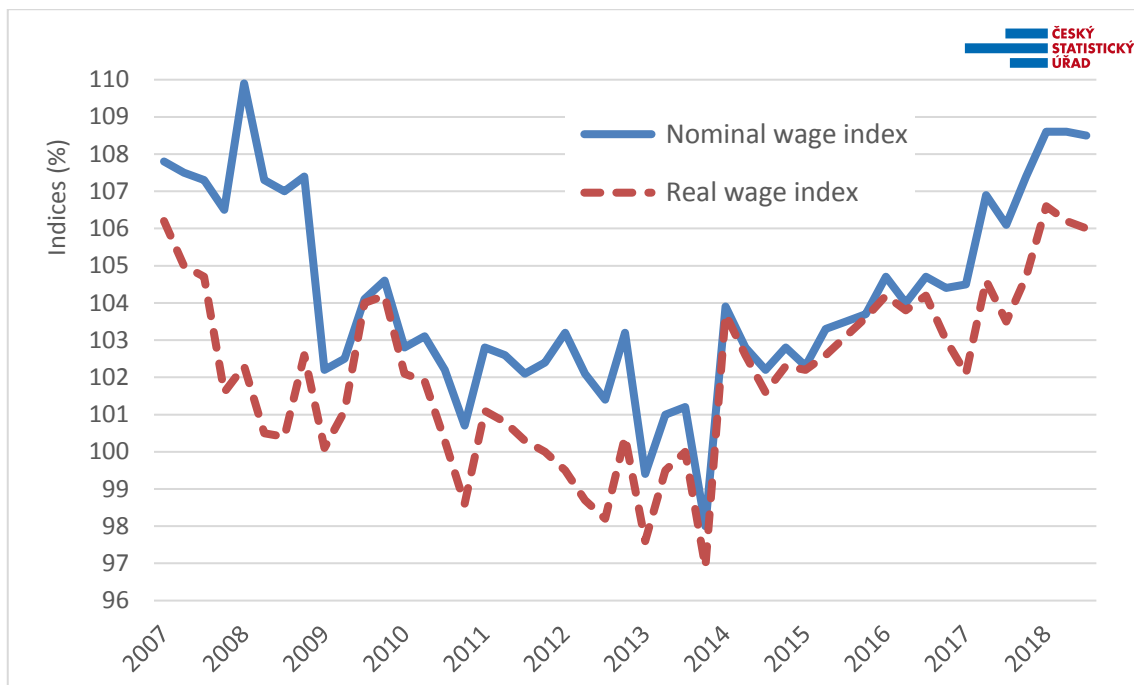
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Similarly to trends in the number of employees the wage growth was differentiated in respective economic activities in Q3 2018. Except for one, all economic activities experienced a year-on-year nominal increase in wages over 6.0%. The aforementioned exemption is 'financial and insurance activities' with an increment of 5.7%, while a slower growth in wages has been typical for this economic activities section in recent years. In this quarter, the other two economic activities sections, otherwise with markedly higher levels of the average wage, which joined 'financial and insurance activities' with under average figures of increments, were 'information and communication' (6.6%) and 'electricity, gas, steam and air conditioning supply' (6.2%). Therefore the wage differentiation was reduced.

Conversely, pay was growing in economic activities dominated by the government. The highest increase was recorded in 'education' in which the average wage increased by 13.2%. In the 'public administration and defence; compulsory social security' the average wage increased by 11.7%, in the 'arts, entertainment and recreation' it increased by 10.8%, and, finally, in 'human health and social work activities' it grew by 10.6%. In the commercial sphere a notable increase of 10.8% was recorded in the 'real estate activities' followed by a larger margin with that in 'construction' of 8.7%.

Other economic activities sections showed the annual wage growth weaker than the average one (+8.5%). In 'wholesale and retail trade; repair of motor vehicles and motorcycles' the average wage increased by 7.5% to reach CZK 29 504. In the industrial activities sector the wages increased by 7.1% to reach CZK 31 295; in 'agriculture, forestry and fishing' the wages increased by 7.5% to reach CZK 26 067. In 'accommodation and food service activities' the

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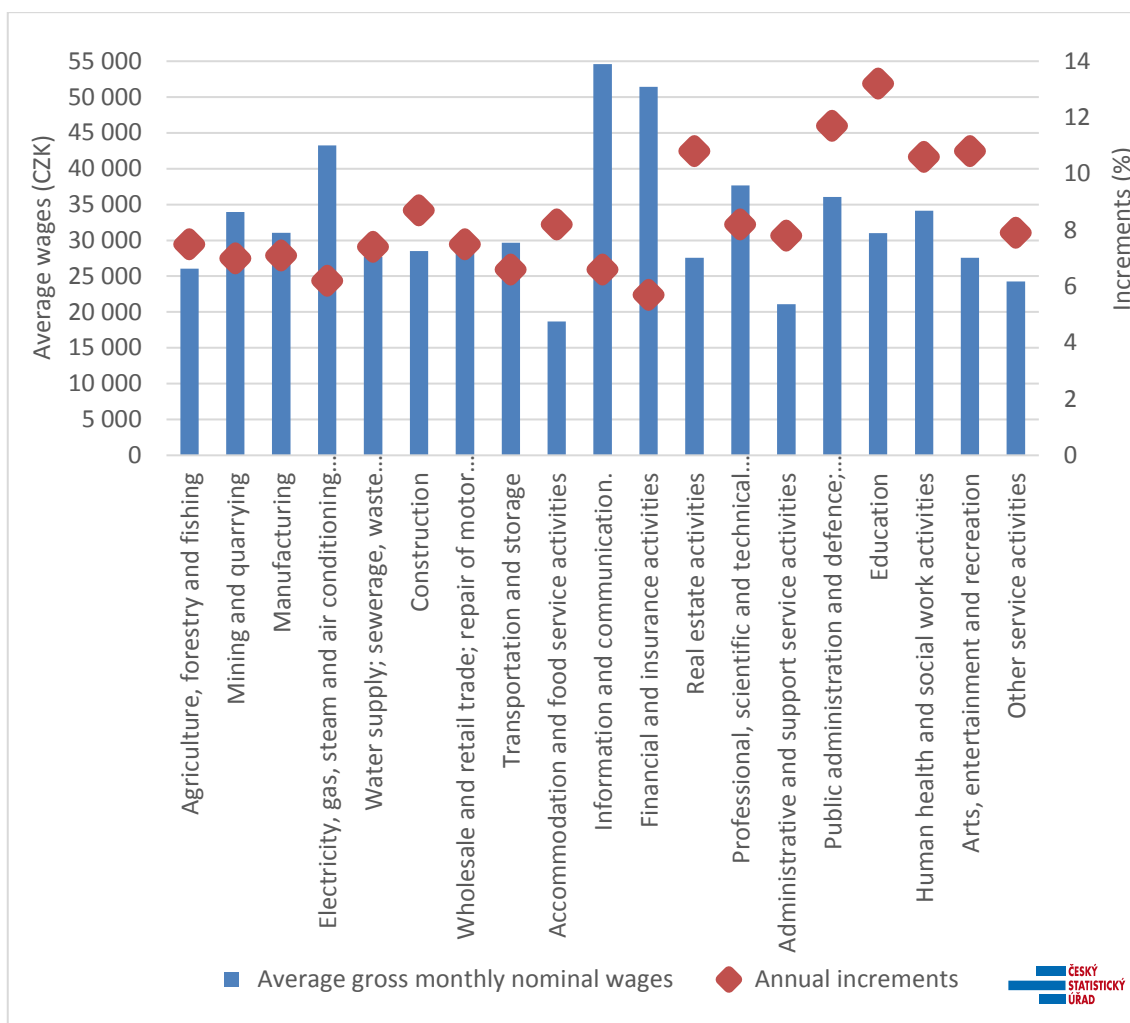
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average wage grew by 8.2%, nevertheless, the average wage in these economic activities remains the lowest of all economic activities with the value of CZK 18 668.

If viewed from the number of hours worked and the number of reimbursed hours out of work the year-on-year comparison is not distorted, because they remained almost identical, there is a slight drop in the number of overtime work hours.



Results in regions were quite balanced overall. The highest growth in average wages (+9.5%) was recorded in the Jihočeský Region, which wage level is rather under average (CZK 28 799). On the contrary, the lowest wage growth (+7.2%) was noticed in the Plzeňský Region, with a higher absolute level of wages (CZK 30 434). In the Capital City of Prague the growth in average wages was the lowest (+7.8%), as usual, nevertheless, the average wage in the City remained by far the highest (CZK 39 298). In the Karlovarský Region, which remained the region with the lowest wage level (CZK 27 994), the average wage grew a bit above average (+8.7%) this time. The second strongest increase in wages (+9.2%) was in the Královéhradecký

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Region. In the Středočeský Region, which boasts the second highest wage level (CZK 31 670) to the Capital City of Prague, also experienced a slightly above average wage growth of 8.7%.

Prague still boasts the fastest growth in the number of employees. In Q3 2018 the increment in the number of employees was 3.3%, y-o-y, in Prague. There was only one region, the Karlovarský Region, which experienced a drop in the number of employees by 0.4%. The highest growth in the number of employees, but that in Prague, was recorded in the Liberecký Region (+1.7%), followed by Pardubický Region (+1.2%) and Zlínský Region (+1.1%).

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The News Release of the CZSO for Q3 2018 contains also 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 that means a common wage level. Extreme deciles were calculated simultaneously as well. In Q3 2018 the median wage was CZK 27 719. The wage interval was still very broad although it got relatively a bit narrowed due to faster increases in the lowest wages. Ten percent of employees earning the lowest wages got earnings below CZK 14 221 (bottom decile), and the opposite tenth of highest wages, on the contrary, earned above CZK 49 376 (top decile). The current decile ratio was 3.47.

The male wage level is significantly higher. The gender pay gap in average wages was 15.5% because in Q3 2018 the median wage in females was CZK 25 206, while in males it was CZK 29 842. Simultaneously, it holds that wages in males are distributed over a wider interval and especially the area of high earnings is incomparably higher in males than in females. The top decile in males was CZK 55 275, in females solely CZK 42 664. In low earnings the difference is much smaller, the bottom decile in males was CZK 14 928, in females it was CZK 13 647.

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