

## 6. Labour Market

Strain persisted on the Czech labour market. Shortage of spare capacities steered businesses more and more towards importing labour force from abroad.

Perceptible strain reflecting the imbalance between the supply and demand prevailed on the Czech labour market also during H1 2019. Demand for employees still remained strong despite partial corrections. Their shortage still presented the main growth barrier across the majority of branches, it was the most acute in construction. Supply of new workers has been considerably limited on the domestic market for already several quarters. Businesses thus gradually redirected their recruitment activities towards foreign workers, assisted by the activities of the state, continued in the targeted projects of economic migration<sup>1</sup>. The role of foreigners on the Czech labour market thus further grew<sup>2</sup>. However, businesses still faced considerable obstacles to acquire new more qualified workers. Both new and current employees benefited from this situation – their earnings showed a significant growth

Number of employed in the economy hiked up to the record level at the beginning of the year, where it already remained in Q2.

Total employment<sup>3</sup> in the economy further boosted this year, rate of growth however lowered. While the number of employed increased by 1.4% year-on-year in Q1 (similarly to the whole last year), it was already only 0.8% in the subsequent quarter (the least since Q3 2014). Number of workers again set a new record in the era of independent CR in Q1 2019 (5.48 mil.), this level however remained stable in the next time period. Slowdown was aligned with the results of the business cycle surveys, which signalled more prudent attitude of businesses to hiring new workers already during year 2018 (mainly in industry, but also in some branches of market services)<sup>4</sup>.

Business cycle survey implied continuing positive expectations of employment especially in construction and trade.

This tendency reflected both the growing uncertainties of significant domestic exporters linked to the current situation in the euro area as well as longstanding pressure on raising the labour productivity driven by growing wage costs as well as falling profitability of businesses. More cautions outlooks of businesses in terms of employment were apparent also at the beginning of this year, Q2 witnessed a stabilisation. Nevertheless, the short-term anticipations of employment remained patently positive especially in construction and trade<sup>5</sup>.

Employees caused exclusively the higher number of workers.

Year-on-year expansion of total employment (+60.6 thousand) was the result exclusively of higher number of persons with the employee status in H1, since the number of self-employed stagnated (among main branches it more substantially increased only in information and communication activities, finance and insurance activities, professional, scientific, technical and administrative activities and also in manufacturing). Core of the total employment growth was further shifting into the tertiary

<sup>1</sup> Increase of quota for qualified workers from Ukraine occurred for instance during the year 2018 (from 9.6 thousand to 19.6 thousand). The scope of countries, whose citizens can enter the schemas as well as projects targeted at qualified workers, also widened (for India, the Philippines, Mongolia and Serbia). Further increase of quota for workers from Ukraine came into force during the summer time of 2019 (to 40 thousand).

<sup>2</sup> 659 thousand of citizens with foreign citizenship were employed according to the data of MLSA and MIT (Ministry of Industry and Trade) in the CR at the end of year 2018. They already comprised one eighth of all workers on the labour market. Their number was further increased during the first half of year 2019, as indirectly evidenced by demographic statistics – the positive balance of total foreign migration (20.9 thousand persons in H1) as well as the increase of the number of all registered foreigners (by 8.4 thousand according to the Foreign Police Directorate since the beginning of year 2019). Similarly to the whole last year, Ukrainians contributed the most to the higher number of all working foreigners.

<sup>3</sup> Unless stated otherwise, data regarding employment are stated in the national accounts conception adjusted for seasonal effects in this chapter.

<sup>4</sup> Expressed according to the seasonally adjusted data from the business cycle surveys as the difference (in p.p.) between the proportion of businesses expecting employment growth in the next three months and businesses on the other hand anticipating decline of their levels of employees.

<sup>5</sup> Balance of short-term expectations in the area of employment reached +15 points in both construction and trade in June 2019. It was similarly –2 points in industry and market services. Situation differed according to sub-branches. Within manufacturing, the largest share of businesses expecting reduction of their number of workers was in manufacture of fabricated metal products, machinery and manufacture of wearing apparel. On the other hand, positive outlook prevailed mainly in manufacture of computers, electronic and optical products, in chemical, pharmaceutical and wood industry. Among market services, mainly businesses in information and communication, in professional, scientific and technical activities and further also in sub-branches storage or restaurants signalled growth. On the contrary, businesses in transportation, postal and courier activities, financial activities (except for insurance and pension funding), travel agencies and also security and investigative activities were more inclined to the reduction of number of workers.

sector, which profited from the growing domestic demand as well as expanding tourist industry. Services sector contributed to the higher number of workers in the economy nearly from three quarters.

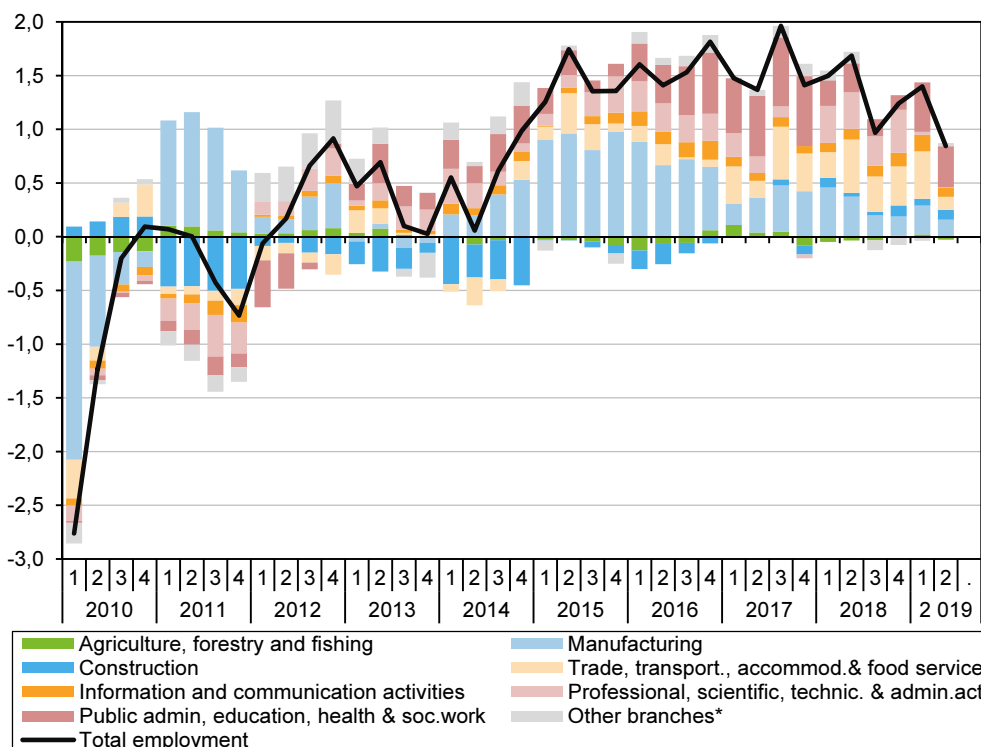
Dynamical growth of branch information and communication lasted, branches with the predominant public sector also created new job positions.

Dynamic development of information and communication continued (+4.2% year-on-year). The activity was bolstered by nearly 24 thousand of job positions and total employment expanded by one sixth in the last five years. Branches with the predominant public sector also fared well (+2.3%), mostly due to education as well as health and social care. Weight significant group trade, transportation, accommodation and food service (+1.2%) showed a weaker dynamics in comparison to the last year, partly due to the mild lowering of number of entrepreneurs (without employees).

Rate of growth of employment weakened in industry, in contrast further accelerated in construction.

Manufacturing enlarged by 0.8% of workers, this branch records below average pace already for two and a half years<sup>6</sup>. Construction was hiring workers already second year in a row and even though the employment growth (+1.0%) remained slightly below the pace of the whole economy in this branch also this year, it represented the best half-yearly result here since the end of year 2010. Trend of a very gradual reduction of the number of workers in the primary sector continued, largely due to the reduction of number of self-employed (similarly to the last year).

**Chart 13 Total employment (year-on-year in %) and contributions of main branches to year-on-year employment change (in percentage points)**



\*Includes branches: Mining and energetics; Financial and insurance activities; Real estate activities; Arts, entertainment and recreation activities; Other services.  
Source: CZSO (national account)

Average age of workers was further rising. Employment rate of population in the productive age also grew, but slower.

From the view of the age composition, the employment was favourable impacted mainly by the growth of both the legal and real age of retirement. Further structural changes also continued – strong population cohorts of the 70s were moving into the age with the higher rate of economic participation. Average age of workers further increased. These trends were also reflected in the growing employment rate of productive age population

<sup>6</sup> According to the business statistical data, the number of employees even mildly fell (by 0.3%) in industry in H1. In this conception however agency workers are not included in the industry and the effect of the shadow economy is also not allowed for.



Employment rate of both males and females in the CR ranks among the significantly above average in the EU in the long-term.

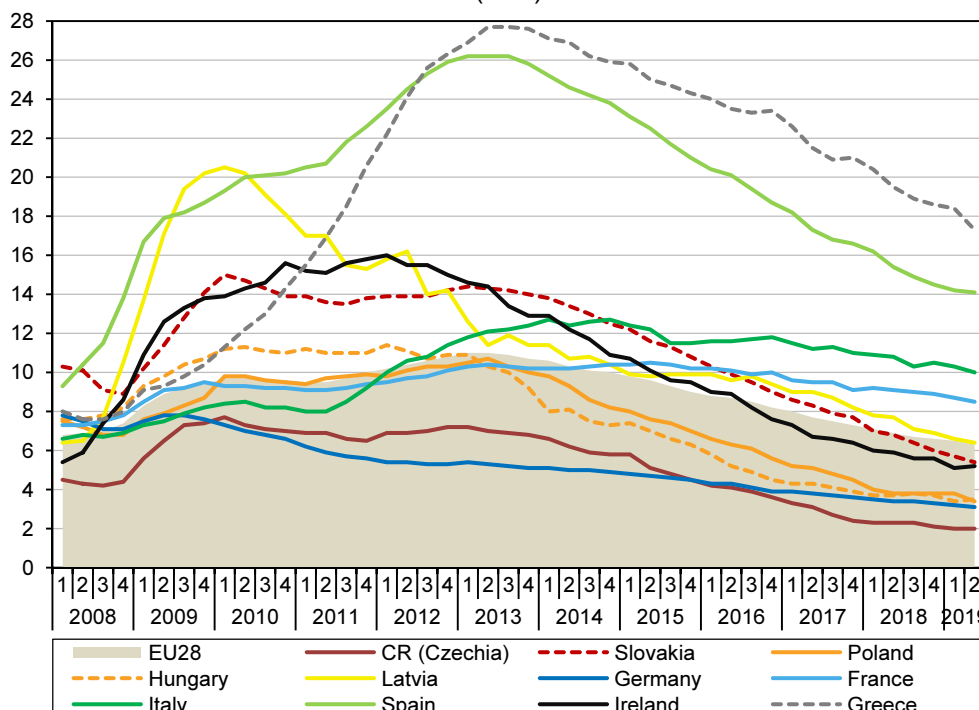
General unemployment rate kept further mildly falling, mainly due to females. Proportion of long-term unemployed among all unemployed persons stabilised closely above 30%.

Unemployment rate of both males and females in the CR still stayed the lowest among the EU states. Other countries of central Europe also enjoyed a very good position.

(15–64 years). It arrived at 82.0% for males and 67.8% for females in Q2, it rose by 0.3 p.p. year-on-year in both cases. The rate of growth gradually evaporates as the potential resources of workers among both the unemployed and economically inactive who wish to work<sup>7</sup> „dry out“. Still the employment rate stays significantly above average in the CR within the European context. For females, the CR ranks eleventh<sup>8</sup> among the EU states (with maximum in Sweden – 75% and minimum in Greece – 46% and further Italy – 50%), for males second (tightly behind the Netherlands).

General unemployment rate (after seasonal adjustment) was already falling only slowly this year, similarly to year 2018. It reduced to 1.7% for males, 2.5% for females in Q2 2019. Year-on-year it thus fell only by 0.1, resp. 0.4 p.p. Positively, the number of long-term unemployed (above one year) also decreased, however already only by 2.7 thousand of persons in Q2 itself. These persons thus added only one sixth to the year-on-year reduction of total unemployment. They were represented among unemployed then only by one third and this share has not changed for nearly two years. Persons aged above 50 and also persons with primary education hold higher proportion among long-term unemployed. Even though the number of businesses expecting reduction of the level of employees mildly increased during this year, it can be assumed, that the labour market managed to again absorb these so far sparse groups of dismissed employees without difficulties. Very low unemployment is also manifested in the improved working conditions of current employees (e.g. drop of share of employees working involuntarily on temporary contract, specifically for agency workers as well). Unemployment rate of both males and females in the CR boasted the lowest values among the EU countries this as well as last year. Unemployment was falling to the minimum (since the beginning of 90s) the same as in the CR also for instance in other countries of the “Visegrad Group”.

**Chart 14 General unemployment rate for persons aged 15 to 74 years in the CR, total EU and selected Union countries (in %)\***



\*Data after seasonal adjustment.

Source: Eurostat

<sup>7</sup> Persons not in employment, not seeking work (thus not fulfilling a condition to be put among unemployed), but expressing the willingness to work (regardless of the ability to join new employment fast). There were 105 thousand of them in Q2 2019, nearly by one half less compared to years 2010 and 2011, when the labour market was hit by the aftermath of the economic recession.

<sup>8</sup> Only women in Baltic countries attained a higher employment rate (70 to 72%) among states that accessed the EU after year 2000, mainly due to the higher legal retirement age.

Number of job vacancies in the supply of labour offices neared 350 thousand, their rate of growth however slackened substantially since the half of 2018.

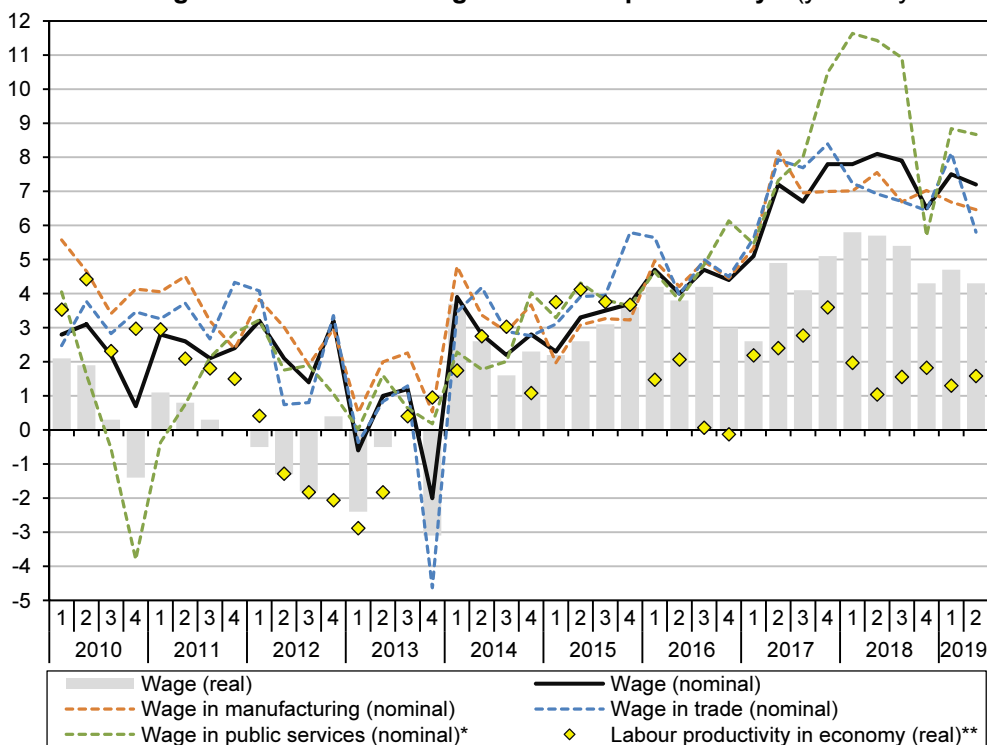
New job vacancies targeted primarily persons with lowest qualification.

Excess of demand over supply of labour force, which has been apparent at the level of the CR already since April 2018.

High demand for employees is evident from the rising number of job vacancies offered by the labour offices. There were 342.5 thousand of job vacancies at the end of June 2019, by 41 thousand more year-on-year. Speed of growth of number of positions however considerably slackened for the last year, their number even slightly lowered month-on-month in June (for the first time since the end of 2016). Dramatic imbalance of the job additions from the view of the qualification demands as well as regions attained already in the previous years further deepened, when the supply of new positions likely for the most part aimed at foreign workers from economically less developed countries. Already 77% of all job vacancies belonged to classes with the low qualification (craftsmen and repairmen, machine operators, supporting and non-qualified staff). Similarly 69% of all jobs targeted applicants with maximally the primary or lower secondary education, 20% then apprentices. On the other hand only minimum shift was observed in the supply for persons with higher education, but also e.g. for persons with disabilities.

Ratio of job applicants to one job vacancy was 0.6. Excess of demand over supply of labour force, which has been apparent at the level of the CR already since last year's April, was signalled by two thirds of districts and majority of regions (apart from Ustecky and Moravian Silesian) in June this year. Excess pressure of applicants nevertheless still prevails for persons with the school leaving certificate (1.9) and university education (1.3) and for specific groups of applicants – women on parental leave or persons with disabilities (2.7).

**Chart 15 Average nominal and real wage and labour productivity\*\* (year-on-year in %)**



\* Includes branches: Public administration, defence, social security; Education; Human health and social work activities; Arts, entertainment and recreation activities.  
 \*\*Calculated as the share of seasonally non-adjusted GDP and total employment (in the national accounts conception).  
 Source: CZSO (national accounts)

Factors promoting brisk growth of wage were still more prominent in the domestic economy.

In spite of more urgent „import“ of foreign workers, domestic employers still faced considerable difficulties in their staffing process. Higher fluctuation was also likely in play mostly with less qualified workers, which results from the fact, that these positions were taken by persons less established on the domestic labour market (foreigners, long-term unemployed). These factors together with the repeated increases of the minimal wage were contributing to the high wage dynamics. However, chances for its sustaining kept



further narrowing due to falling profitability of businesses enhanced by the worsened economic development in key export destinations.

Rate of growth of average nominal wages slightly slowed this year compared to H1 2018, due to the effect of manufacturing and public services.

The average gross nominal monthly employee wage went up by 7.2% (based on business statistics) year-on-year and climbed slightly above 34 thousand CZK in Q2 2019. Growth reached 7.3% for the whole half-year (it was 8.0% in the same period of year 2018). The highest wage growth among main branches displayed arts, entertainment and recreational activities (12.0%). However, growth within this branch was concentrated in the segment outside the area of public services. There earnings grew the most in education (nearly by 10.6%), still their average monthly size somewhat lagged behind the level of the national economy. Wages grew briskly also in administrative and support service activities (+8.7%), their level was, however, by one third lower compared to the whole economy. Wage pace in financial and insurance activities (+8.1%) markedly improved after four years of below average growth. It was the consequence not only of the extraordinary bonuses tied to the very good business results of year 2018, but also the strong pressure on the labour productivity, which resulted in reduction of the registered number of employees (by 1.9%). It was also valid for manufacturing (-0.4%), volume of paid out wages was here the third lowest (+6.2%) among nineteen main branches (after branches of the primary sector). Average wages in the developing branches with so far below the level of whole economy – trade (+6.9%) as well as construction (+6.8%) also grew by a relatively weaker rate of growth.

Wages notably gained pace in financial activities.

Growth of purchasing power of wages mildly slowed year-on-year, still it remained high.

Wage median increased by 7.2% year-on-year in H1 and it lagged behind the pace of the average wage for the first time since H1 2015. Even though the slightly picking inflation „cut“ whole two fifths from the earnings growth this year, real value of average wages was by 4.4% higher year-on-year. Within first half-years, it presented the third strongest pace for the last sixteen years (after years 2007 and 2018).