

ANALYSIS

4 September 2023

Development of the Czech labour market in the Q2 2023

The Czech labour market is currently starting to be dominated by wages catching up with the increased price level. It is contributed to by persisting low unemployment, although the unemployment rate is already rising. The average wage nominally increased by 7.7%, year-on-year; in real terms it decreased by 3.1%.

Introduction

Even despite the high participation rate of the population the Czech labour market was for a long-term out of its equilibrium point, which was shown in the high demand for labour force by enterprises and in low unemployment. Too low wage level, which did not correspond to the state and performance of the economy was in the core of this imbalance.

In the last few years, the labour market has undergone turbulent changes that it somehow managed to cope with, including covid lockdowns and the absorption of foreign labour force, especially from Ukraine affected by the war. There have been structural shifts in employment towards the knowledge economy, the service sector, digitalisation, and the shift of work out of the regular workplace (the home-office phenomenon), which in turn have been manifested in the disintegration of the concept of working time, the reduction of protection (precarisation) for peripheral employment groups, and also the concentration in large cities.

Chart 1 Consumer price index and gross wage index (seasonally adjusted), 2019=100%

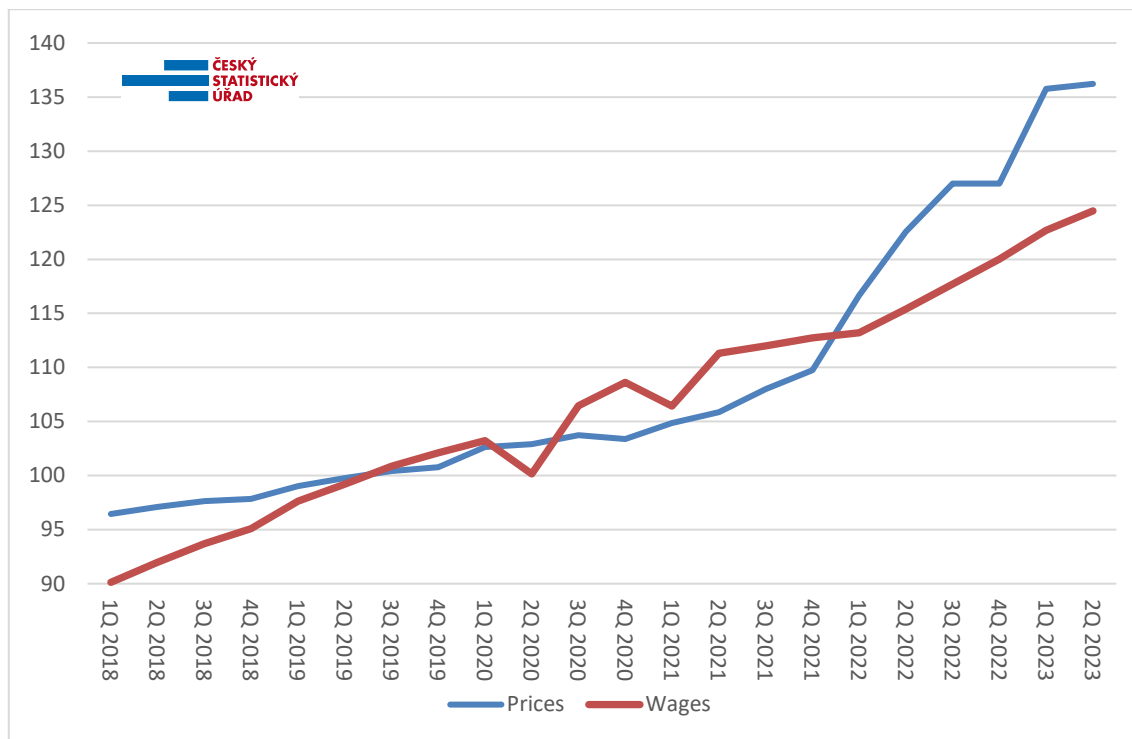
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Currently, the labour market (not only in the Czech Republic) is coping with a steep increase in the price level that occurred last year. The inflation had its original source in payments of compensations for wages in the covid period, which were not covered by adequate production, and was highlighted in the wave of price increases undertaken by companies after the impetus given by the start of the war in Ukraine. The increase in prices had a significant impact on the social situation of households (especially as for essential goods) and caused a fall in real purchasing power. It was inevitably followed by a decrease in demand for goods and services, merchants' sales slumped, and had it not been for foreign demand, Czechia would have been plunged into an even deeper economic recession. It was only at the beginning of this year that the price level stabilised and wage levels perhaps began to gradually catch up, as the chart above with base indices shows. The price level has sharply increased in the period from the Q4 2021 to the Q1 2023; afterwards, it stopped roughly on the level of 36 percent above the average of the year 2019. The wage level was increasing slower, the average gross wage only reached the level of 24 percent above the average of the year 2019 (after seasonal adjustment) in the Q2 2023.

The wage development is much less subject to psychological influences than the price development and is more firmly anchored in the economic reality of companies. The pressure on wage increases has been fuelled not only by the ever-high demand for labour force from enterprises, but from the other side also by the need of employees to repay their long-term contractual obligations (loans) and to compensate for rising prices. This intensified competition for quality employees and led to higher turnover (fluctuation) between companies and entire industries. Despite some cooling, this situation still continues. The unevenness of wage developments in different economic activities (industries) may be a threat to further stability.

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Employment, unemployment, and economic inactivity

Results of the Labour Force Sample Survey (LFSS) brought for the Q2 2023 a year-on-year increase of employment rate (in the age group of 15–64 years) by 0.3 percentage point (p. p.) to 75.2%. Also this time, what is noticeable is a different development between males and females. Females were catching up on the persisting difference. While male employment rate slightly decreased by 0.4 p. p. to 81.8%, female employment rate increased by 1.0 p. p. to 68.2%, which may be related to the newly introduced tax advantage for part-time work, which is used much more by females.

An absolute number of the employed increased by 87.4 thousand, y-o-y, i.e. by 1.7%, to 5 063.9 thousand. What is a long-term trend is an increase in the number of the self-employed without employees (own-account workers), this time it increased by 63.1 thousand, whereas the number of the self-employed with employees (employers) stagnated. The number of employees increased less, only by 40.0 thousand.

In the breakdown by economic activity (sections of the CZ-NACE classification), we can rather speak about stagnation of employment in the secondary sector; there was a decrease there by 13.0 thousand to 1 802.8 thousand. On the other hand, in the tertiary sector, the employment increased, y-o-y, by 95.8 thousand; the number of working persons mainly increased in the section of 'professional, scientific and technical activities' by 31.0 thousand and also in the section of 'education' by 25.1 thousand; a decrease by 13.5 thousand occurred in public administration and defence; compulsory social security'.

The total number of the unemployed according to the LFSS (persons who seek a job in an active manner as defined by the International Labour Organization (ILO)) reached 132.3 thousand persons; after seasonal adjustment, the figures show a quarter-on-quarter increase by 6.0 thousand persons. In the year-on-year comparison, the unemployment increased by 25.6 thousand. The unemployment rate in the age group of 15–64 years thus increased to 2.6%, which was an increase by 0.5 p. p., year-on-year. The increase in unemployment was faster in males than in females.

A regional profile is still noticeable; however, it changed a lot. The highest unemployment rate was no longer in the *Moravskoslezský* Region (it decreased there to 3.5%), it was in the *Liberecký* Region (in which it doubled to 4.5%). The unemployment rate decreased the most, year-on-year, in the *Olomoucký* Region (by 0.7 p. p. to 2.5%). The lowest unemployment rate within Czechia was in the *Vysočina* Region (1.5%). In Prague, in the *Středočeský* Region, and in the *Jihomoravský* Region, where the rates were low in the Q2 2022, they considerably increased.

37.5 thousand, i.e. 28.3% of all the unemployed, were jobless for over a year; the number of the long-term unemployed thus increased by 9.5 thousand, year-on-year. While the number of long-term unemployed males increased, y-o-y, the number of long-term unemployed females remained in the Q2 2023 almost the same as in the corresponding period of 2022.

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The number of persons who cannot be classified as the unemployed and who are considered to be economically inactive (yet they state they would like to work) increased by 33.3 thousand, year-on-year, to 87.4 thousand in the Q2 2023. It is the second and a more considerable increase of this indicator of surplus labour.

The LFSS only covers persons living in dwellings (flats), not those living in hostels and similar collective households. It has a negative influence on the capture of foreigners who often use such ways of housing. The weighting and grossing up methodology of the LFSS has been recently adapted more to this type of survey, which was slightly reflected in absolute figures on employment, mainly as for classification by age group; relative indicators (rates) were almost unaffected by the change.

Registered number of employees expressed as full-time equivalent employees

Preliminary data of the Czech Statistical Office's (CZSO's) business statistics confirmed a positive trend in the year-on-year increase in the number of employees. The registered number of employees expressed as full-time equivalent (FTE) employees increased, year-on-year, in the Q2 2023 by 22.3 thousand, which was a relative increase by 0.6%.

In terms of economic activities (industries), the increase in the number of employees concentrated in the sector of services, including the public ones, whereas the numbers were generally decreasing in the primary and in the secondary sector but also in trade and transport. In five CZ-NACE sections, the number of employees decreased, year-on-year, by 21 thousand. In the remaining fourteen of them, it increased by 43 thousand. Individually, relative increments or decrements ranged from -1.6% to 6.4%.

The biggest decrease (by 1.6% or by 17.1 thousand) can be found in 'manufacturing'. However, it was still employing over one million employees (1 080.2 thousand), it is far the most numerous section. Table 1 in the news release on average wages therefore provides CZ-NACE divisions of this section, which were the biggest as for the number of employees. In all those divisions, we can currently find a decrease in the number of employees; the deepest relative one was in 'manufacture of other non-metallic mineral products' (by 3.1%); however, in absolute numbers it was more considerable in 'manufacture of fabricated metal products, except machinery and equipment' (by 3.4%), which is the second most numerous division after 'manufacture of motor vehicles, trailers and semi-trailers'. There, the number of employees decreased by 1.2 thousand or by 0.7%, which was, on the other hand, the smallest relative decrease.

A considerable slump in the number of employees was also in 'agriculture, forestry and fishing', by 1.4%; in absolute numbers it was by 1.3 thousand. Czechia has a small part of employment allocated in the primary sector; the registered number of employees in that section was currently 91.2 thousand.

Further decrease in the number of employees occurred in 'mining and quarrying'; currently it was by 0.6%, which, however, expressed as an absolute number was 0.1 thousand. This economic activity has been constantly decreasing for a long-term since the beginning of the century; now it

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only employs 18.3 thousand employees, which is the smallest section of the CZ-NACE as for the number of employees, namely with a great gap.

Smaller decreases were in 'transportation and storage', in which the number of employees decreased by 0.4% or 1.1 thousand, and, finally, in trade ('wholesale and retail trade; repair of motor vehicles and motorcycles'), in which the decrease was also by 1.1 thousand, which was, however, only a relative decrement by 0.2%, because trade is the second most numerous section with over half a million employees (505.3 thousand).

In two smaller industrial sections – 'water supply; sewerage, waste management and remediation activities' and the energy sector ('electricity, gas, steam and air conditioning supply') – the numbers of employees increased by 2.0% and 1.2%, respectively. In total, it was an increase by 1.5 thousand.

Three economic activities from the sector of services, in which the number of employees increased in total by 25.6 thousand, contributed to an increase in the number of employees much more. It was 'education' (by 8.6 thousand), 'human health and social work activities' (by 8.5 thousand), and 'administrative and support service activities' (by 8.5 thousand). In the latter, the relative increase was by 4.9% to 181.2 thousand. This section also includes agency workers while this group responds the most sensitively to economic fluctuations and therefore it is a good barometer of changes on the labour market. In the Q1 to Q3 2022, the number of employees was decreasing there.

The most significant relative increase (by 6.3%) can be found in 'real estate activities', where there was an increase by 2.8 thousand jobs to the total of 47.6 thousand. Nevertheless, this economic activity remains the fourth smallest in terms of numbers.

In 'professional, scientific and technical activities', the increase was by 2.0% or 3.5 thousand. What was also worth recording was an increase in 'construction' by 1.4%, because in absolute terms it was by 3.0 thousand. In 'information and communication' that is strengthening for a long-term, there was an increase by one percent (1.3 thousand) of employees.

Average gross monthly wages

The average wage (CZK 43 193) increased nominally by CZK 3 101 in the Q2 2023, compared to the corresponding period of the previous year, i.e. by 7.7%. It is an average of a very diverse development on the level of individual branches (economic activities), enterprises, or organisations.

Expressed in real terms, it was a decrease of wages by 3.1%; employees could thus buy fewer goods or services for the average wage than a year ago. However, the year-on-year declines are moderating and for this year alone, wages would no longer fall in real terms; the reason is the last year's base. The real wage growth is mostly driven by inflation or the growth of consumer prices. It reached 11.1% in the Q2 2023, which was a very high figure; however, it was the lowest since the Q1 2022.

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For the sake of completeness let's summarise that in the previous year of 2022 the inflation was 15.1%, the real wage decreased by 8.5%; in 2021, the inflation was 3.8% and the average wage increased in real terms by 1.9%; in 2020, the inflation was 3.2% and wages increased in real terms by 1.4%. In the previous years of economic boom in 2015–2019, increases of real wage were much higher (from 2.9% up to 5.9%) and the inflation remained below three percent.

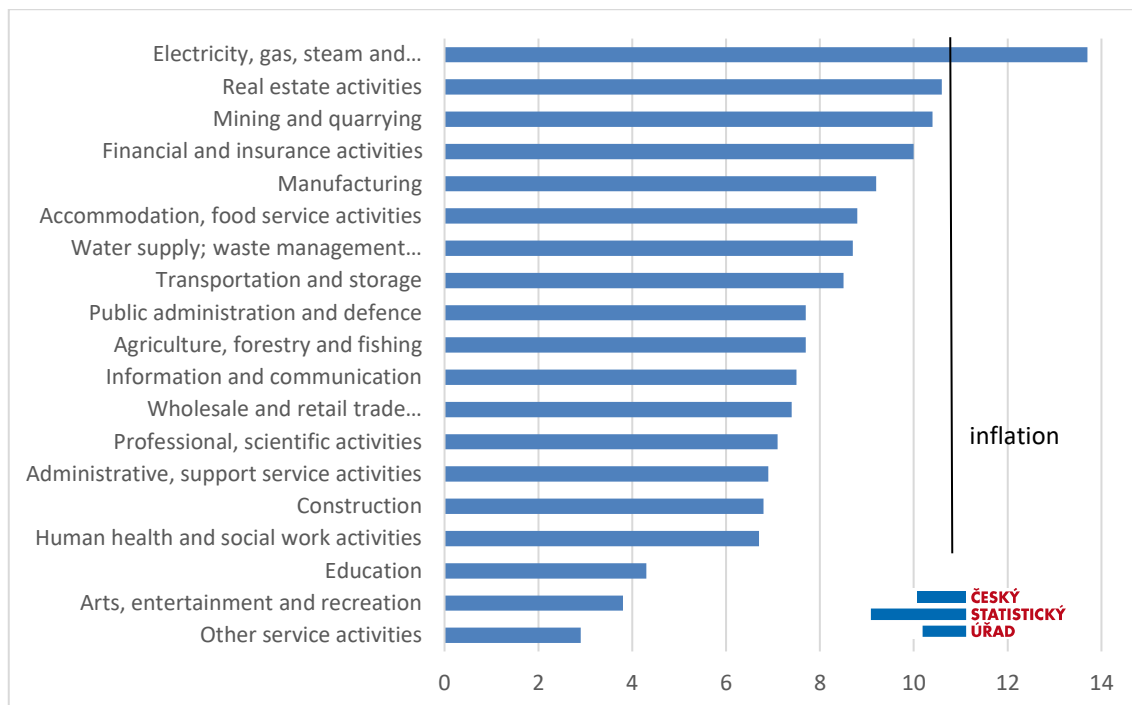
Wage dynamics again varied widely by economic activity in the Q2 2023. There was a nominal positive increase everywhere, however, almost at all CZ-NACE sections it got below the value of the consumer price increase (11.1%); therefore, in real terms, it was a decrease. The only exception was the energy sector (the same as in the Q1 2023), in which the nominal increase by 13.7% meant a real increment by 2.3%. In 'manufacturing', the following divisions closely avoided a year-on-year decrease in real wages: 'manufacture of motor vehicles, trailers and semi-trailers' and 'manufacture of electrical equipment'.

The weakest nominal increase can be found in 'other service activities' (2.9%), in which wages only increased by CZK 897 on average. 'Arts, entertainment and recreation' with an increase by 3.8%, in which the average wage increased by CZK 1 331 to CZK 36 600 ranked the second worst. 'Education' ranked the third worst (4.3%); it only increased there by CZK 1 707 to CZK 41 658. It is followed by a block of economic activities, in which the average wage increased nominally by less than eight percent, see the Chart 2 below, and eight sections, in which it increased more.

Ten-percent or higher increases can be found in 'financial and insurance activities' (10.0%), in 'mining and quarrying' (10.4%), and in 'real estate activities' (10.6%). In 'manufacturing', increasing of wages exceeded a nine-percent threshold (9.2%).

Chart 2 Year-on-year increases of nominal wages by economic activity (CZ-NACE section; %)

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The highest average wage in the Q2 2023 can be found in 'financial and insurance activities', in which the average wage reached CZK 76 664. 'Information and communication' were the second with CZK 75 522; wages increased there by 7.5% year-on-year. The third place, with a gap, was held by the aforementioned 'electricity, gas, steam and air conditioning supply' with CZK 62 995. The traditional order was from the opposite side. In 'accommodation and food service activities', the average wage increased by 8.8%; however, it still remained at the lowest level (CZK 25 498) of all economic activities. The second lowest average wage was in 'administrative and support service activities', where it increased by 6.9% to CZK 30 123, and the third lowest was in the above-mentioned 'other service activities' with an average wage of CZK 32 008.

In trade ('wholesale and retail trade; repair of motor vehicles and motorcycles'), the average wage increased by 7.4% to CZK 40 317. In 'manufacturing,' wages jumped to CZK 43 042, in 'manufacture of motor vehicles, trailers and semi-trailers' they got up to CZK 56 737. In 'human health and social work activities,' where one in twelve employees currently works, the average wage increased by 6.7% to CZK 46 007.

As for the working hours statistics, the Q2 2023 was characteristic for its higher number of paid hours not worked in comparison with the corresponding period of the previous year.

Development in Regions

In terms of the number of employees, in the vast majority of Regions, there was a year-on-year decrease in the Q2 2023. The most considerable one by 1.1% was in the *Zlínský* Region followed by 1.0% in the *Pardubický* Region. In the *Vysočina* Region, the number of employees decreased by 0.7%, in the *Ústecký* Region by 0.6%, and in the *Jihočeský* Region by 0.5%. An increase in

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the number of employees in Prague (by 3.7%) significantly contributed to the total increase in the number of employees; a smaller increase was also recorded by the *Pižeňský* Region (1.2%); in the *Královéhradecký* Region the numbers stagnated.

As for the development of average wages, the dispersion is much smaller among Regions than in the breakdown by economic activity (industry). Wages were increasing nominally in the range from 6.4% to 8.5%. It thus holds true that the real purchasing power slumped in all Regions, year-on-year. The lowest nominal growth (and thus also the biggest slump in the real wage) was again recorded by the Capital City of Prague (the *Hl. m. Praha* Region), by 6.4%, followed by the *Olomoucký* Region (7.0%) and the *Karlovarský* Region (7.2%). The *Středočeský* Region currently had the highest nominal increase (8.5%) followed by the *Ústecký* Region (8.3%) and the *Zlínský* Region (8.2%).

Nevertheless, according to the absolute level of earnings, Prague continues to remain the richest among the Regions of the Czech Republic. The average wage in Prague was CZK 52 833. The *Středočeský* Region maintained its second position with CZK 45 477. The *Jihomoravský* Region ranked third (CZK 41 912) and the forty-thousand level was further exceeded by the *Královéhradecký* Region (CZK 41 249) and the *Pižeňský* Region (CZK 40 986). On the other hand, the *Karlovarský* Region remained to be the Region with the lowest wage level (CZK 37 072). In the *Moravskoslezský* Region, which is a Region with the highest number of employees (415.8 thousand) following Prague, the *Jihomoravský* Region, and the *Středočeský* Region, the average wage reached CZK 39 108.

Median wages and decile intervals of wages by sex

The news release (of the CZSO) on wages for the Q2 2023 also contains a piece of 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, i.e. a common wage level. Extreme deciles have been calculated concurrently, too. In the Q2 2023, the median wage achieved CZK 36 816, which is by CZK 2 662 (i.e. by 7.8%) more than in the corresponding period of the previous year.

The wage distribution widened in the Q2 2023, compared to the previous year. Ten percent of employees with the lowest wages were receiving a gross wage below CZK 19 320 (the bottom decile increased by 6.5%, y-o-y), whereas the opposite tenth having highest wages earned over CZK 70 247 (the top decile increased by 7.9%). The decile ratio increased by 0.05 point, year-on-year, to 3.64.

The male median wage was higher than the female median wage. In the Q2 2023, the female median wage was CZK 33 862 (it increased by 8.2%, y-o-y), whereas the male median wage was CZK 39 847 (it increased by 7.7%). The gap between the median earnings by sex thus decreased by 0.4 p. p., year-on-year, to 15.0%.

Concurrently, wages of males were distributed over a substantially wider interval; especially the area of high earnings is considerably higher for males than for females. The top decile for females was CZK 60 428 and for males it was CZK 79 740, by which the gap as for high earnings was 24.2% and it increased by 1.0 percentage point, year-on-year. On the other hand, as for low

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earnings, the difference was smaller and it was by 2.7 p. p. lower, y-o-y. The bottom decile for females was CZK 18 696 and for males it was CZK 20 043, which results in a gap of 6.7%.

* * *

The preliminary results of the **Information System on Average Earnings (ISAE)** for the **first half-year** of 2023 bring a more detailed view of wage structures, distributions, and socio-economic breakdowns. The ISAE, however, applies a different methodology for the calculation of personal earnings of employees (mainly, it excludes all absence at work) and therefore these data are comparable neither to the aforementioned amounts of the average wages nor to figures given in tables attached to the news release of the CZSO.

According to the valid Classification of **Occupations (CZ-ISCO)** managers were the group with highest earnings having the median wage of CZK 76 594; it increased by 8.3%, year-on-year, which was above standard. Their wages are the most differentiated ones; a tenth of the best-paid earned over CZK 186 908, while the opposite tenth got less than CZK 39 639. The second major group of professionals became the most numerous and it also has the second highest wage level with the median wage of CZK 52 602; one tenth received over CZK 107 199. Concurrently, however, their median wage increased the least, only by 5.3%. The third major group includes technicians and associate professionals; their median wage was CZK 43 952. The fourth major group of clerical support workers had CZK 33 486. In the group of service and sales workers, one out of every three belongs to the so-called low-income employees¹ – they had the decile interval from CZK 19 987 to CZK 45 694 and the median wage CZK 29 039. Craft and related trades workers had their median wage CZK 36 448 (an increase by 8.0%) and plant and machine operators and assemblers CZK 34 490 (an increase by 7.6%). Elementary occupations permanently have the lowest wage level; their median currently increased by 7.5% to CZK 23 793; among them, the share of low-income employees is thus over a half; their decile interval was between CZK 17 808 and CZK 37 266.

For wages broken down by **age group** it holds true that, in the year-on-year comparison, wages of the older categories (groups) were increasing more than those of younger categories. Moreover, the lowest median wage is permanently earned by employees aged up to 20 years, their current median was CZK 26 928; concurrently, their number in the sample increased the most (by 16%). In the age group of 20–29 years, the median wage was already considerably higher (CZK 35 215) and for the age group of 30–39 years, the median wage was the highest (CZK 40 353). In other two categories (each consisting of ten years) wages are decreasing: to CZK 39 383 for the most numerous group of the 40-49 years old and to CZK 37 899 for the 50-59 years old. Finally, for the 60+ years old, the median wage was CZK 38 055, i.e. somewhat higher than that for the younger ones; however, in this category, there is only a third of the employees and typically those with higher qualification remain to work longer.

¹ In general, such an employee is considered to be a low-income (low-wage) employee who earns less than 2/3 of the total median wage; according to preliminary results of the ISAE for the 1st half-year of 2023, the threshold was CZK 25 604.

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Wages are also highly structured by the **educational attainment** of an employee; again, employees with higher education (tertiary) had the highest earnings, their median wage was CZK 53 145; however, in the y-o-y comparison, it increased for them the least, only by 5.5%. Conversely, wages of employees with primary education or with incomplete (primary) education remained to be the lowest ones (CZK 29 626), although they increased the most, by 7.8%. Employees with secondary education with A-level examination earned much more (CZK 39 153) than those without A-level examination (CZK 32 539), but less than employees with post-secondary non-tertiary and bachelor's education (CZK 44 884).

The Information System on Average Earnings also monitors, every half year, earnings by **citizenship**. As for big groups of foreigners, Ukrainians are represented now the most. The number of their records increased by 36%, y-o-y, whereas the numbers of Romanians and Bulgarians slumped by 6.9% and 1.4%, respectively. Of those groups in Czechia, Slovaks had the highest median wage (CZK 43 182); it was by 12% higher than that of employees with Czech citizenship (CZK 38 712) and it increased the most, year-on-year (by 8.6%). Conversely, by 24% lower than the median wage of Czechs was namely the median wage of Ukrainians (CZK 29 341), which, moreover, increased the least, y-o-y (by 6.2%). Lower than the Czech ones were also wage levels of other three smaller groups, i.e. Bulgarians (by 16% lower), Romanians (by 14%), and Poles (by 7%).

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