

| Instant Reaction |

EcoAlert

Accelerating wages will force the central bank to hike rates



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Wages (2Q17), retail sales (July 2017)

	Actual	KB forecast	Consensus (Bloomberg)
Retail sales			
Retail sales (exl. cars) (% yoy)	4.6	7.1	6.0
Retail sales (incl. cars) (% yoy)	2.5	6.0	5.9
Wages			
Nominal wages (% yoy)	7.6	6.0	6.0
Real wages (% yoy)	5.3	4.2	4.2

Source: Bloomberg, CZSO, Economic & Strategy Research, Komerční banka

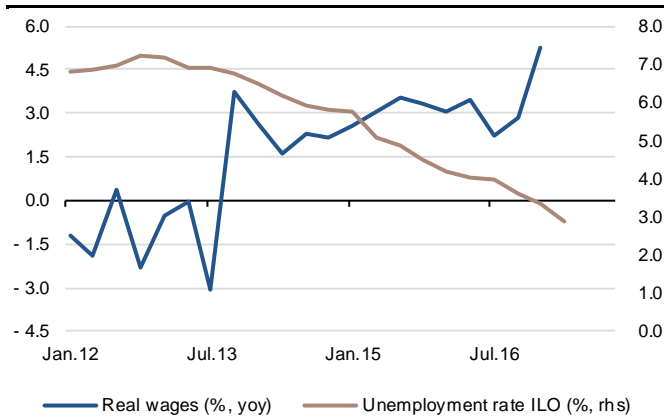
Wage growth in the second quarter surpassed all expectations. The average nominal wage jumped a significant 7.6% yoy, in real terms 5.3%. This reflects the exceptionally good condition of the domestic economy and the labour shortage. In our view, wages will continue to rise, which is why we think the central bank will raise interest rates again by the end of this year. On the other hand, retail sales in July disappointed. However, given the growing purchasing power of households, prospects remain positive.

Wages in the second quarter surged 7.6%. The average wage thus reached CZK29,346, i.e. CZK2,074 more than in the same period last year. Nevertheless, rising inflation cut into a part of wages. Even so, real wages grew 5.3% yoy. Wages in accommodation and food service activities grew the most (15.8% yoy), probably due to the continuing impact of EET introduction and the increase in the minimum wage. Even the median wage grew 8.2% in the second quarter. Wage growth, combined with rising employment, has also been reflected in the total wage volume, which was 9.3% higher than the previous year.

In our view, wages will grow further. For this year, nominal wages should add an average of 6.4%. However, today's figures seem to speak for even higher dynamics. We expect a similar development next year. The rise of wages in the public sphere is likely to play an important role, as well. Next year, the total volume of salary expenditures in the public sector should increase 10%. In addition, higher inflation will be reflected in wage bargaining.

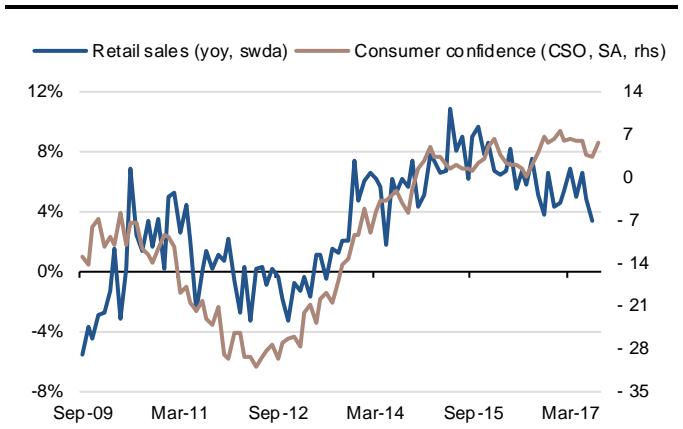
Rising wages will increase the willingness of households to spend and will therefore push inflation up. Fast wage growth is one of the reasons we expect the central bank to hike interest rates before the end of this year. Next year, we expect the central bank to hike rates three times. However, the koruna's exchange rate did not react to the published data. On the other hand, it weakened from EUR/CZK26.06 to EUR/CZK26.09.

Wages accelerated



Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

Retail sales disappointed



Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

On the contrary, July's retail sales disappointed. They grew only 4.6% yoy, which in comparison with the previous month represented a drop of 1.0%. Surprisingly, sales of food and fuel declined, while sales of non-food goods increased. Sales and repairs of motor vehicles declined 2.2% mom in July. Yoy sales fell 2.1%. However, summer statistics are often distorted by holidays. There are no other signs that household consumption should lose steam. On the contrary, fast-growing wages speak for further growth of Czech retail sales. For the whole of this year, we forecast retail sales adding 6.4%.

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