

Instant Reaction

EcoAlert

Labour market remains tight despite unemployment increase in December



Monika Junicke
 (420) 222 008 509
 monika_junicke@kb.cz

External trade (November 2018) and share of unemployed (December 2018)

	Current	KB forecast	Consensus (Bloomberg)
External trade (CZKbn)	20.2	2.4	4.9
Share of unemployed (%)	3.1	3.0	3.1

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

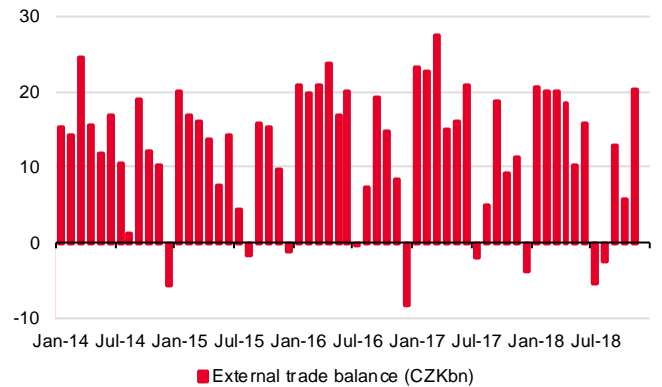
The result of external trade in November was a pleasant surprise, although for the entire year 2018 the trade balance will end up with a lower surplus than the year before. Labour market pressures did not let up at the end of the year. The higher share of unemployed in December was caused by seasonal effects, and the increasing number of vacancies shows that demand for labour remains strong.

Higher car exports result in an extraordinarily high trade balance surplus

The external trade balance for November surprised by ending with a significant surplus of CZK20.2bn. This is nearly CZK9bn more than the year before. Thus, November and April were the only two months of 2018 when the external surplus was higher than in 2017.

The good result is mainly due to a higher surplus in the motor vehicles balance, which was nearly CZK10bn higher than the year before. In the second half of the year, automotive sector produced a record-high number of cars, which was reflected in exports. Exports of motor vehicles increased nearly 14% yoy while overall exports added 9.7% yoy. However, import dynamics also remained solid, with imports increasing 7.1% yoy.

November's surplus was the second-highest last year



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

Despite two months when the foreign trade surplus was higher than in 2017, for the remaining period the result was always worse; in the first 11 months, the external trade surplus was nearly CZK30bn less than in 2017. Thus, despite a solid surplus in November, for the entire 2018 we expect significantly lower surplus compared to CZK163bn recorded in 2017.

In December, unemployment rose for the first time since summer

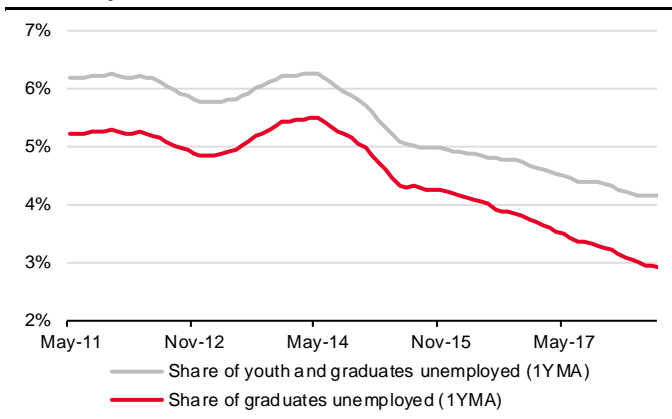
In December, the share of unemployed in the Czech Republic increased for the second time in 2018. It rose one-fifth of a percentage point to 3.1%. However, this is not the result of any turmoil on the labour market but rather seasonal effects as a lot of agricultural and construction works were finished. Thus, adjusted for the seasonal effect, the share of unemployed decreased further, although moderately. The number of unemployed increased in all districts except two: Most and Prague-West. Surprisingly, despite the strong negative seasonality, the number of vacancies rose, as well. This indicates that demand for labour is still strong. In contrast with other European countries, the Czech Republic is successful at employing young people and graduates.

The domestic economy has been slowing down, and demand for new workers will gradually decrease. The share of unemployed will not decline much more, and in our view it will stabilise this year just below the current values. Deviations will be mainly due to seasonality.

Notwithstanding demand for labour will remain higher than its supply, which will push wages up further. Wage growth will not be as

strong as last year; however, it remains solid around 6.5%. This will also be reflected in consumer price dynamics, and despite lower global economic growth is the main reason the CNB will continue its contractionary monetary policy. We believe the bank board will hike three times this year and the repo rate will reach 2.5% by the end of the year.

The share of graduates on overall unemployed is the lowest in the history



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

KB ECONOMIC & STRATEGY RESEARCH

Chief Economist and Head of Research
Jan Vejmelek, Ph.D., CFA
 (420) 222 008 568
 jan_vejmelek@kb.cz

<p>Economists Viktor Zeisel (420) 222 008 523 viktor_zeisel@kb.cz</p>	<p>Monika Junicke (420) 222 008 509 monika_junicke@kb.cz</p>	<p>Jana Steckerová (420) 222 008 524 jana_steckerova@kb.cz</p>	<p>Jakub Matějů (420) 222 008 598 j_mateju@kb.cz</p>
<p>Equity Analysts Miroslav Frayer (420) 222 008 567 miroslav_frayer@kb.cz</p>	<p>Jiří Kostka (420) 222 008 560 jiri_kostka@kb.cz</p>		

SG IN CENTRAL AND EASTERN EUROPE

<p>Chief Economist of SG Poland Jaroslav Janecki (48) 225 284 162 jaroslav_janecki@sgcib.com</p>	<p>Head of Research of Rosbank Evgeny Koshelev (7) 495 725 5637 evgeny.koshelev@rosbank.ru</p>	<p>Chief Economist of BRD-GSG Florian Libocor (40) 213 016 869 florian.libocor@brd.ro</p>
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<p>Head of Fin. Markets Research BRD-GSG Carmen Lipara (40) 213 014 370 carmen.lipara@brd.ro</p>	<p>Economist Ioan Mincu (40) 213 014 472 george.mincu-radulescu@brd.ro</p>	<p>Equity Analyst Laura Simon, CFA (40) 213 014 370 laura.simon@brd.ro</p>
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SG GLOBAL ECONOMICS RESEARCH

Head of Global Economics
Klaus Baader
 (852) 2166 4095
 klaus.baader@sgcib.com

<p>Euro area Michel Martinez (33) 1 4213 3421 michel.martinez@sgcib.com</p>	<p>Anatoli Annenkov (44) 20 7762 4676 anatoli.annenkov@sgcib.com</p>	<p>Yvan Mamalet (44) 20 7762 5665 yvan.mamalet@sgcib.com</p>	<p>United Kingdom Brian Hilliard (44) 20 7676 7165 brian.hilliard@sgcib.com</p>
<p>North America Stephen Gallagher (212) 278 4496 stephen.gallagher@sgcib.com</p>	<p>Omair Sharif (1) 212 278 48 29 omair.sharif@sgcib.com</p>	<p>Latin America Dev Ashish (91) 80 2802 4381 dev.ashish@socgen.com</p>	<p>India Kunal Kumar Kundu (91) 80 6716 8266 kunal.kundu@sgcib.com</p>
<p>China Wei Yao (33) 1 57 29 69 60 wei.yao@sgcib.com</p>	<p>Japan Takuji Aida (81) 3-6777-8063 takuji.aida@sgcib.com</p>	<p>Arata Oto (81) 3 6777 8064 arata.oto@sgcib.com</p>	<p>Korea Suktae Oh (82) 2195 7430 suktae.oh@sgcib.com</p>

SG CROSS ASSET RESEARCH - FIXED INCOME & FOREX GROUPS

Global Head of Research
Brigitte Richard-Hidden
 (33) 1 42 13 78 46
 brigitte.richard-hidden@sgcib.com

Head of Fixed Income & Forex Strategy
Guy Stear
 (33) 1 41 13 63 99
 guy.stear@sgcib.com

<p>Head of Retes Strategy Adam Kurpiel (33) 1 42 13 63 42 adam.kurpiel@sgcib.com</p>	<p>Bruno Braizinha (1) 212 278 5296 bruno.braizinha@sgcib.com</p>	<p>Jean-David Cirotteau (33) 1 42 13 72 52 jean-david.cirotteau@sgcib.com</p>	<p>Cristina Costa (33) 1 58 98 51 71 cristina.costa@sgcib.com</p>
<p>Jorge Garayo (44) 20 7676 7404 jorge.garayo@sgcib.com</p>	<p>Head of Euro Area Rates Strategy Ciaran O'Hagan (33) 1 42 13 58 60 ciaran.ohagan@sgcib.com</p>	<p>Shakeeb Hulikatti (91) 80 2802 4380 shakeeb.hulikatti@sgcib.com</p>	<p>Head of US Rates Strategy Subadra Rajappa (1) 212 278 5241 subadra.rajappa@sgcib.com</p>
<p>Jason Simpson (44) 20 7676 7580 jason.simpson@sgcib.com</p>	<p>Marc-Henri Thoumin (44) 20 7676 7770 marc-henri.thoumin@sgcib.com</p>	<p>Kevin Ferret (44) 20 7676 7073 kevin.ferret@sgcib.com</p>	

<p>Foreign Exchange Kit Juckes (44) 20 7676 7972 kit_juckes@sgcib.com</p>	<p>FX Derivatives Strategy Olivier Korber (33) 1 42 13 32 88 olivier.korber@sgcib.com</p>	<p>Alvin T. Tan (44) 20 7676 7971 alvin-t.tan@sgcib.com</p>
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Head of Emerging Markets Strategy
Jason Daw
 (65) 6326 7890
 jason.daw@sgcib.com

<p>Régis Chatellier (44) 20 7676 7354 regis.chatellier@sgcib.com</p>	<p>Phoenix Kalen (44) 20 7676 7305 phoenix.kalen@sgcib.com</p>	<p>Kiyong Seong (852) 2166 4658 kiyong.seong@sgcib.com</p>	<p>Marek Drimal (44) 20 7550 2395 marek.drimal@sgcib.com</p>
<p>Bertrand Delgado +1 212 278 6918 bertrand.delgado-calderon@sgcib.com</p>			

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