

Instant Reaction

EcoAlert

Wage growth continues gradual deceleration



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Average monthly wage growth – 1Q20

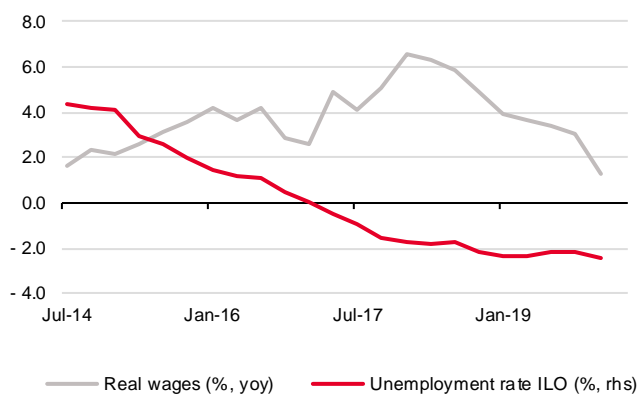
	Actual	KB forecast	Consensus)
Average nominal wage growth (% , yoy)	5.0	5.5	n.a.
Average real wage growth (% , yoy)	1.4	1.9	1.9

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

At the end of last year, average wage growth was slower than initially estimated and growth decelerated further in 1Q this year. The economic recession will bring about an increase of unemployment as companies try to lower the costs of wages. This year, the average real wage will probably increase only marginally. Household consumption will remain sluggish. The CNB will probably cut the key interest rate to technical zero.

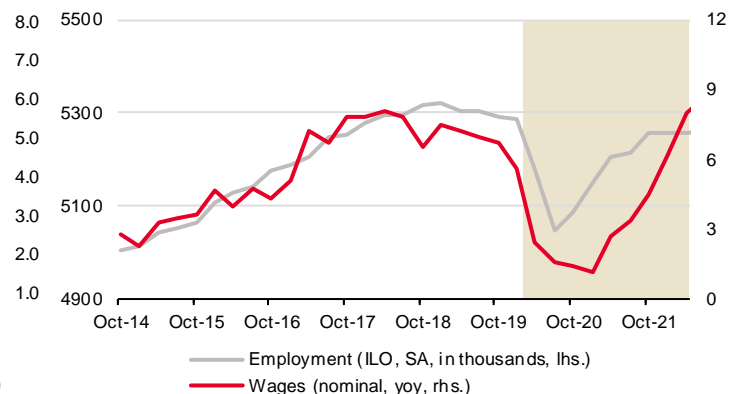
In the first quarter, the Czech average wage increased 5.0% yoy, reaching CZK 34,077. After adjusting for 3.6% yoy inflation, real wage growth reached 1.4% yoy. This was 50 bp below our estimate as well as the market's expectation. The surprise, in fact, was caused by the revision of previous figures. According to the new data, the average wage increased 3.1% yoy in 4Q last year, while the previously published data showed 3.6% yoy. In 1Q, the median wage increased 5.5%, i.e. slightly faster than average, and reached CZK 29,333.

Real wage growth decelerates



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

Employment declines



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

Wage growth decelerates in both nominal as well as real terms. The deceleration would probably continue even without the recession, but the COVID-19 recession will further enhance this tendency. Wages are not usually flexible to the downside, and in the short term the cut could materialise in the flexible part of paychecks or bonuses. At the beginning of the year there were wage increases, mainly in the public sector.

The public sector will be the driver of Czech wages while the private sector will try to cut wage costs in response to the economic decline and weaker demand. There will be exceptions in those sectors where some shortages of employees prevail, for example in some IT areas and construction to a certain extent. After average wage growth of more than 7% last year, we expect a deceleration to only 2.8% this year, which would probably be only slightly above inflation. It could therefore easily happen that the real average wage declines this year. Consequently, with the awaited increase of unemployment we expect a decline in household consumption by 3.5% in 2020.

After the data release, CZK depreciated against EUR, but that was rather a correction of the previous strengthening. The surprise for the market is small. **Nevertheless, the wage growth development fits into our base case scenario wherein the CNB cuts interest rates to technical zero as soon as late June.**

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