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ANALYSIS

5 September 2017

Employees' Wages Grow at Pace as Ten Years ago

Labour Market in Q2 2017

Results for Q2 2017 of statistics of the Labour Force Sample Survey (LFSS) carried out in households show a record-breaking employment rate of the aged 15 – 64 years (73.3%). At the same time the unemployment rate fell below the level of the lowest values since the beginning of its monitoring and still remained the lowest of all in the Member States of the European Union. Results of business statistics performed by the Czech Statistical Office (CZSO) confirmed an important increase in the registered number of employees accompanied with an accelerated growth in wages.

Results of the LFSS have been showing culminating economic activities of the Czech Republic population and especially very high employment, which grew year-on-year (y-o-y) by 68.8 thousand persons to reach 5 197,3 thousand persons. Numbers of working persons significantly increased both in the secondary sector of the economy, mostly in manufacturing, and in the tertiary sector in which numbers were growing mainly in professional, scientific and technical activities and in transportation and storage.

The unemployment rate simultaneously declined to a next minimum in history when the number of the unemployed (as defined by the ILO) fell below the level of 160 thousand persons to 158.8 thousand persons. It was, first of all, long-term unemployment what was decreasing because the number of persons searching for a job for a period longer than one year dropped to 59.2 thousand persons. At the same time the number of vacant jobs reported at the Labour Office was growing and exceeded the level of 188 thousand vacant jobs at the end of July 2017.

Preliminary data of the CZSO business statistics have confirmed the described trends. In Q2 2017, compared to the same period of the previous year, there was the number of registered employees converted to full-time-equivalent (FTE) employees by 1.5% higher, which is by 60.6 thousand persons more. The highest increment in the number of employees was recorded in manufacturing by 15.4 thousand persons, followed by wholesale and retail trade; repair of motor vehicles and motorcycles by 9.8 thousand persons, yet relatively highest increments were found in smaller economic activities of electricity, gas, steam and air conditioning supply by 5.0%, information and communication by 4.9%, and in professional, scientific and technical activities by 4.2%. The only significant decline in the number of employees was recorded in mining and quarrying by 2.8 thousand persons, which is relatively -10.2%. Smaller declines below 1% were monitored in construction and in accommodation and food service activities. Numbers of employees were growing in every other economic activity.

The overall average wage grew nominally by 7.6%. Because of inflation, consumer price index increased by 2.2%, the real purchasing power grew by 5.3%. Such pace of growth was recorded for wages right the decade ago.

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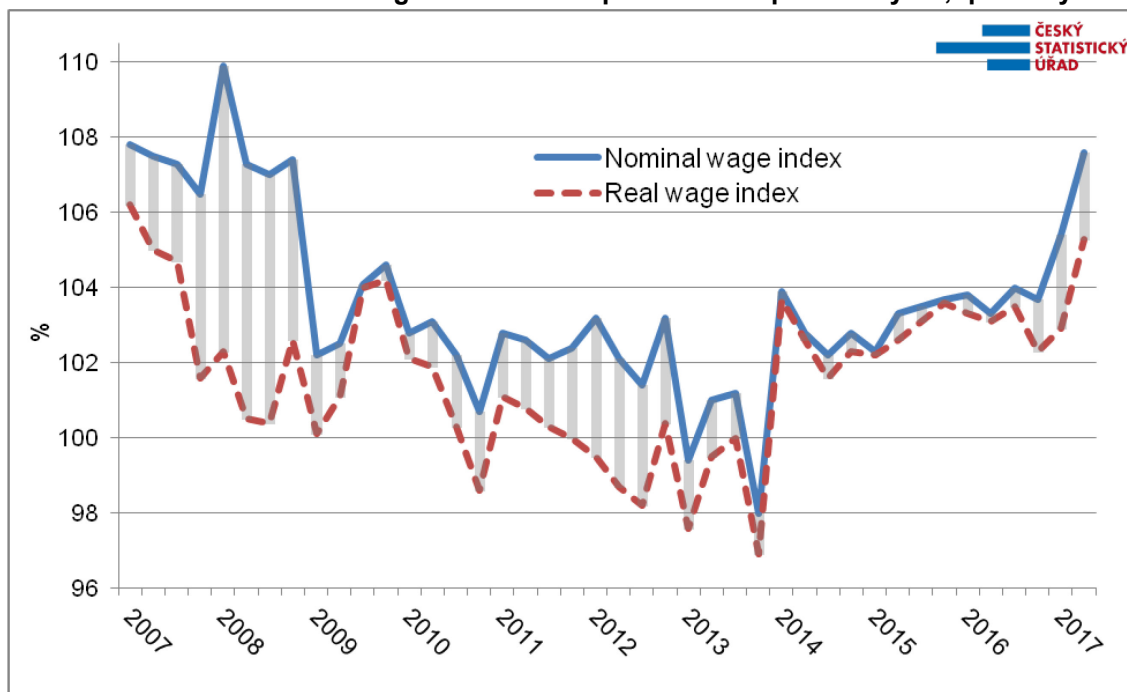
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It can be seen in the graph enclosed how average wages developed in history. In Q2 2007 indices of nominal and real wages coincided with the actual values, but the tenths of per cent. That time unemployment was also dropping rapidly and there was a high number of vacant jobs. This trend was disrupted by recession.

In 2008, however, year-on year increases in the average nominal monthly wages were high yet the growth in earnings was affected by a high inflation (difference in between the curves) so the real wages were growing less. It is also clear that since the recession onset the growth in nominal wages was descending till stagnation in 2013 and concerning real wages even a decline occurred.

Indices of nominal and real wages to the same period of the previous year, quarterly data



Since 2014 the nominal wages began to come upwards and, moreover, since the end of 2016 inflation was below 1%, so real wages were fast growing as well. For the whole decade the average wages recorded an increment of CZK 8 606 which means they grew by 41.5%.

If broken down by **economic activity** the year-on-year wage increases in Q2 2017 fall within the interval from 4 to 16 per cent. The highest wage increase can be found in accommodation and food service activities (+15.8%), in which however, there is still the lowest average wage of all economic activities (CZK 17 897). The second highest increase (+10.2%) is also found in economic activities with the second lowest average wage, in administrative and support service activities (CZK 19 568). On the contrary, in financial and insurance activities, which wage level

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is, as usual, the highest (CZK 55 601), the average wage increased by mere 4.2%, year-on-year. This way the trend in closing of wage gaps among economic activities has continued.

The national economy workhorse is manufacturing which provides 1 139 thousand jobs. Viewed from wages perspective it demonstrated a very good shape. The average wage in this economic activity grew by 8.4% to CZK 29 929. The second largest field of economic activities is wholesale and retail trade; repair of motor vehicles and motorcycles with over a half a million jobs and the average wage increased by 8.2% to reach CZK 27 426. Two aforementioned economic activities are closely tied to transportation and storage, in which the number of employees surpasses the level of 262 thousand persons and wages grew by 6.7% to attain the even CZK 27 000.

Increases in the average nominal wage by CZ-NACE section in Q2 2017 compared to the same period of the previous year

ANALYSIS



The statistics confirm the hard times in mining and quarrying continue. In these economic activities an increase in wages by over 7% was accompanied with a decline in the number of employees by over 10%, year-on-year. The activities were employing 33.0 thousand persons four years ago and in Q2 2017 it was merely 24.9 thousand persons.

From the **regional point of view** the Capital City of Prague still retained its special position. Recently, in Prague there were the fastest growth in the number of employees yet, at the same time, the lowest wage increase. In Q2 2017 there was a significant increment in jobs by 3.4% while the increase in wage was by an under-average 5.9%. On the contrary, the growth in average wages was the highest in the Karlovarský Region (+9.7%), which was the only region, however, that experienced a minute decline in the number of employees (-0.1%). The following

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higher increases were recorded in the Plzeňský Region (+9.3%) and in the Středočeský Region (+9.0%). The second lowest increase in wages was found in the Moravskoslezský Region (+6.9%), the region which is closely tied to the aforementioned activities of mining and quarrying. The Karlovarský Region still, despite the latest value of the wage increase, features the lowest absolute wage level, solely of 68% of the average wage earned in Prague.

* * *

From the standpoint of cumulated data **for the whole 1st half of 2017** the overall average wage grew by 6.5%, which is by 4.1% y-o-y in real terms. Concerning an increase in purchasing power the effects of inflation (consumer price index), which increased by 2.3% y-o-y, while in 2016 it was by mere 0.4%, began to play an essential role. Simultaneously, in the first half of 2017 the number of employees converted to full-time equivalent employees significantly increased by 1.7%, i.e. by 66.5 thousand persons.

The average wage of CZK 28 623 is nominally by 42% higher than that ten years ago, but the real increment is 16%. Therefore looking at the trends conditions on the labour market are very similar to those ten years ago yet at an entirely different wage level.

* * *

The **median wage**, the wage of a middle employee that means a common wage level calculated from a mathematical model of the earnings distribution, increased by 8.2% to reach CZK 24 896 in Q2 2017. This means the difference in between the median wage and the arithmetic average (average wage) is almost CZK 4.500. The average is very sensitive to extremely high values.

Very high wages grew somewhat slower year-on-year. Nevertheless, the wage interval remained rather wide - eighty per cent of employees, except for the two border tenths, earned wages within the interval of CZK 12 022 and CZK 47 058. From the standpoint of sexes, the wage increase was rather more pronounced in females (+ 8.7%) and less in males (+ 8.1%). The male wage level is, however, significantly higher: in Q2 2017 the median wage in females was CZK 22 300, while in males it was CZK 27 181.

* * *

The preliminary results of the **Average Earnings Information System (ISPV)** for the first half of 2017 bring a more detailed view of wage distributions and social classification. The ISPV, however, applies a different methodology for the calculation of personal earnings of employees. It especially excludes all absence at work, and therefore the data may neither be compared to the aforementioned values of the average wages, nor to figures given in tables attached to the News Release of the Czech Statistical Office.

The **median wage**, according to the ISPV methodology, reached the value of CZK 25 786 in the first half of 2017 and increased by 7.4%, compared to the first half of 2016. Ten per cent of low-

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income employees earned wages below CZK 13 783 and, conversely, one tenth of the highest wages were above the limit of CZK 47 670. Thus the decile ratio was 3.46, compared to 3.51 in the last year. The reduction in wage differentiation was caused by a faster growth of wages in the bottom half of the distribution, that means in employees earning lower pays.

According to the valid Classification of **Occupations** (CZ-ISCO) managers were the group with highest earnings having the median wage of CZK 46 515 yet also with a very wide decile span from CZK 20 765 to CZK 121 686. The second highest wage level can be found in professionals lying in between deciles of CZK 23 074 and CZK 71 804, while their median wage is CZK 34 260. The third rank is occupied by technicians and associate professionals with the median wage of CZK 30 078 and the decile range from CZK 18 031 to CZK 50 658. Clerical support workers had the median wage of CZK 23 139 and the decile range from CZK 13 138 to CZK 37 655 and their earnings recorded the least growth (+ 6.2%), year-on-year.

The fastest growth of the median wage was found in service and sales workers, of which, however, a great number belong to low-income employees, with the decile range from CZK 11 608 to CZK 30 712 and their median wage was CZK 17 596, which is solely a bit more than two thirds of the overall median wage. Craft and related trades workers and plant and machine operators and assemblers have their median wages CZK 24 632 and CZK 24 066, respectively. The lowest wage level can be found, in general, at elementary occupations with the median wage CZK 16 146 and the decile range from CZK 11 361 to CZK 26 360. They also recorded a significantly faster growth in earnings by 8.2%.

Wages are also markedly structured by **educational attainment** of employees when in the first half of 2017 employees with higher education earned the highest earnings, their median wage was CZK 36 419. On the contrary, employees with primary and/or incomplete education had the lowest wages (median wage of CZK 18 970), but these wages recorded the fastest growth (+8.9%) y-o-y. Employees having secondary education with A-level examination earned more (CZK 26 491) than employees having secondary education without the A-level examination (CZK 21 822), yet less than employees with completed higher professional school or with bachelor degree (CZK 30 132).

If viewed by **age group** the lowest median wage of CZK 17 845 was earned by employees up to 20 years of age, while in the age 20-29 years it was already CZK 23 841, and the age group 30-39 years recorded the highest median wage of all of CZK 26 994. This is, however, accompanied with an increase in variability of earnings. The lowest tenth of earnings (1st decile) remains below the level of fourteen thousand Czech crowns in every age group.

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