

## Economics

8 June 2011 | 6 pages

# Czech Republic Macro Flash

## 1Q Wage Growth Stronger Than CNB Expected

- **1Q real average wage** increased by 0.4%YoY after contracting by 1.5% in 4Q10 (revised downward from -1.2%). This is in line with our view that the labour market and private consumption could be stronger than the CNB expects. The CNB expected real wages to contract by 0.3%YoY in 1Q11. 1Q real wage growth was driven by the private sector which rose 1.3%YoY after -0.4% in 4Q10, while the austerity package approved in 2010 was a drag for public sector wages as they contracted by 3.3%YoY in 1Q11, although this eased from -5.9% in 4Q10. The average public sector wage is below that of the private sector by 3% and this is the first time when it has been accompanied by a drop in public sector wages (since 2001).
- **The May unemployment rate** met consensus and our forecast as it fell to 8.2% from 8.6% in April. This reflects seasonal patterns, while we estimate the seasonally-adjusted measures were virtually unchanged at 8.80% in May as employment expectations improved in May after weakening in Mar/Apr; however, this improvement was not widespread. The dynamic – vacancies and flows – remained positive for the labour market (Figures 5. 8).
- **Forecast implications** – We keep our forecast of a gradual decline in the seasonally-adjusted unemployment rate to 8.6% by the end of 2011 and to 8% in 2012. Overall, the wage bill increased by 2.2%YoY in 1Q11 slightly supported by mild increase in employment (0.1%YoY). We expect employment to improve further, thus it is likely to limit the fiscal drag on GDP growth. Moreover, the wage data are per full-time employees and we expect the hours worked to recover at a stronger pace than employment this year which is supportive as well.
- **Market implications** – We think that today's data are line with our view of 50bp hike in CNB's policy rate in 2H11, if we see a hawkish ECB and continued export-driven recovery. However, tomorrow's data will be key for the CNB – May CPI (we expect 2%YoY, below the market's 1.8%, but in line with CNB) and 1Q GDP details (we expect a better outturn for private consumption compared to CNB's forecast of a contraction by 0.7%YoY in 1Q11 after -0.4% in 4Q10).

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**Figure 1. Czech Republic – Unemployment Rate and Average Wage, May and 1Q 2011**

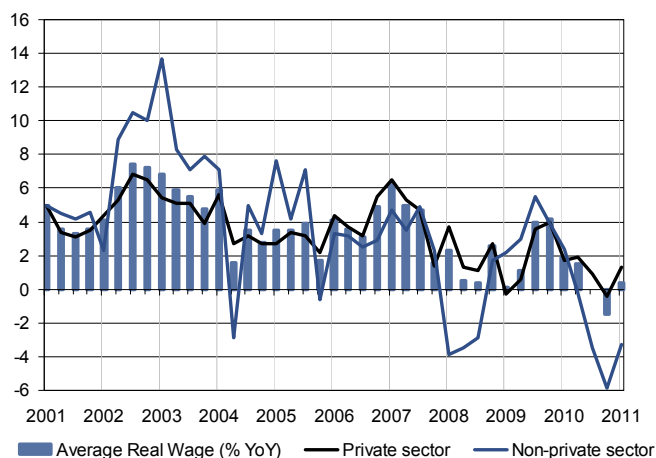
May 2011	Actual	Citi forecast	Consensus (Low / High)	Previous
Unemployment Rate (% nsa / sa)	8.2 / 8.80	8.2 / 8.85	8.2 (8.0 / 8.5) / -	8.6 / 8.85
1Q 2011				
Average wage (%YoY; nominal / real)	2.1 / 0.4	-	-	0.6 / -1.5
- private sector	3.0 / 1.3	-	-	1.7 / -0.4
- public sector	-1.7 / -3.3	-	-	-3.9 / -5.9
Average nominal wage (%QoQ, sa)	0.6	-	-	n.a.

Source: Ministry of Labour and Social Affairs, CZSO Reuters and CIRA forecast. Note: \* Citi estimate

[See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.](#)

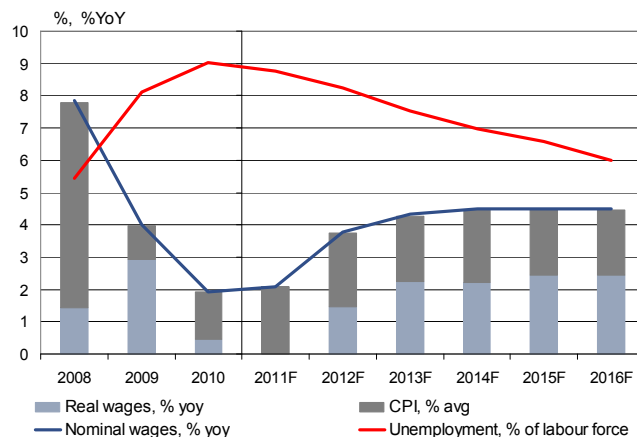
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Figure 2. Average real wage growth surpassed CNB's forecast



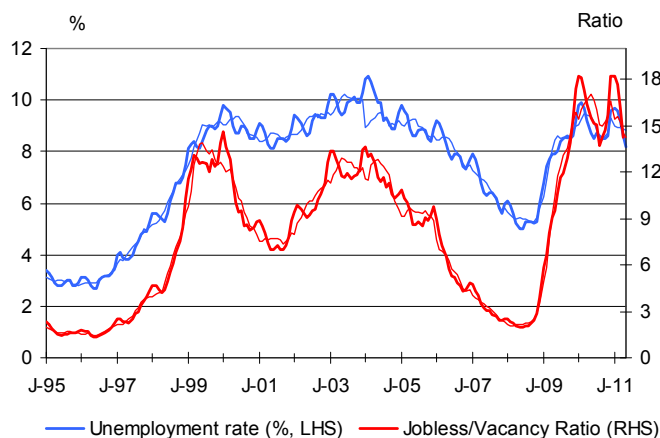
Source: CZSO and CIRA calculation

Figure 3. Citi forecast for Czech key labour market data



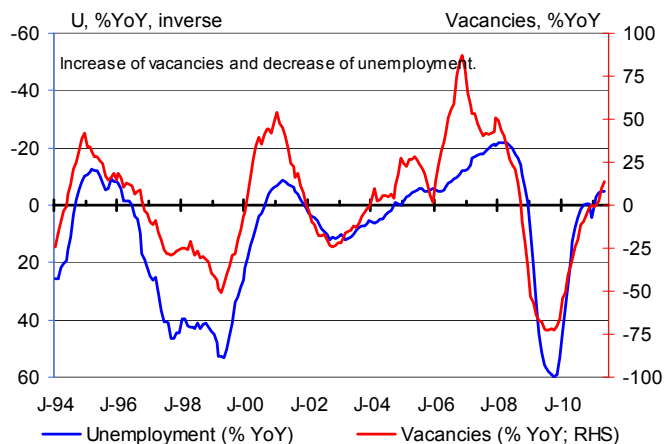
Source: CZSO and CIRA calculation and forecast

Figure 4. Unemployment rate and jobless/vacancy ratio



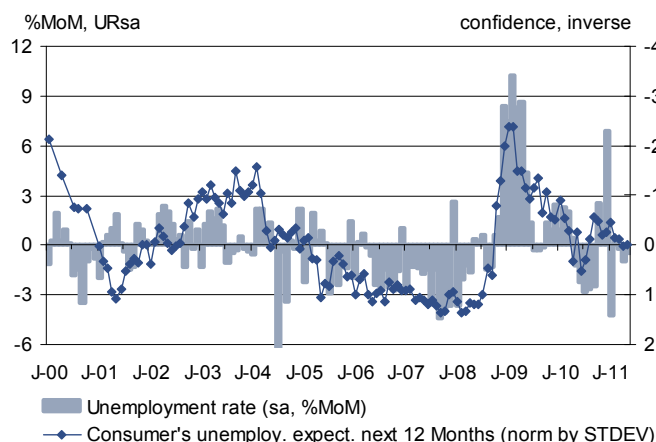
Source: Ministry of Labour and Social Affairs, CIRA calculation

Figure 5. And in dynamic view that points to improvement



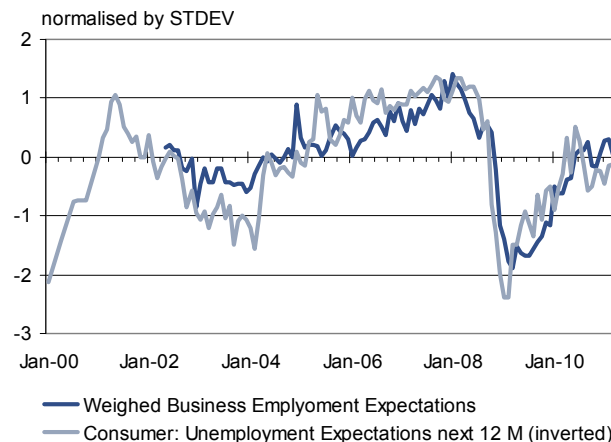
Source: Ministry of Labour and Social Affairs and CIRA calculation

Figure 6. Consumer's expectations and cyclical impact – mildly positive



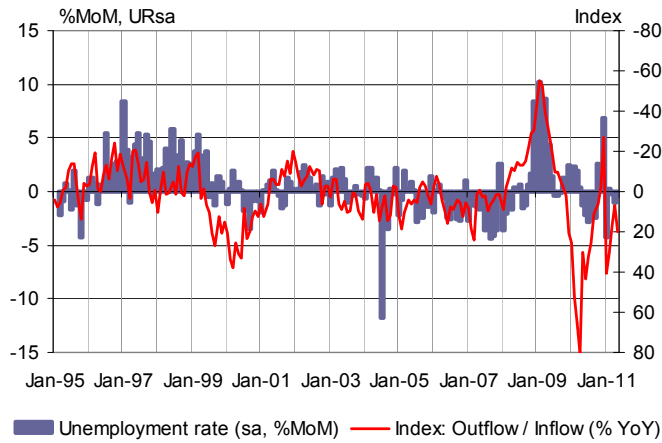
Source: Haver, Ministry of Labour and Social Affairs and CIRA calculation

Figure 7. Business vs. households' labour market expectations



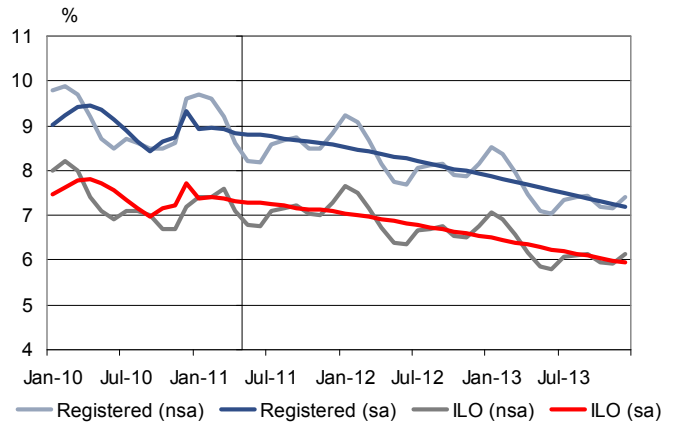
Source: Haver, Ministry of Labour and Social Affairs and CIRA calculation

Figure 8. Flows points to better cyclical impact in labour market



Source: Ministry of Labour and Social Affairs and CIRA calculation.

Figure 9. Citi forecasts a gradual decline in the unemployment rate



Source: Haver, Ministry of Labour and Social Affairs and CIRA forecast.

## Appendix A-1

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