

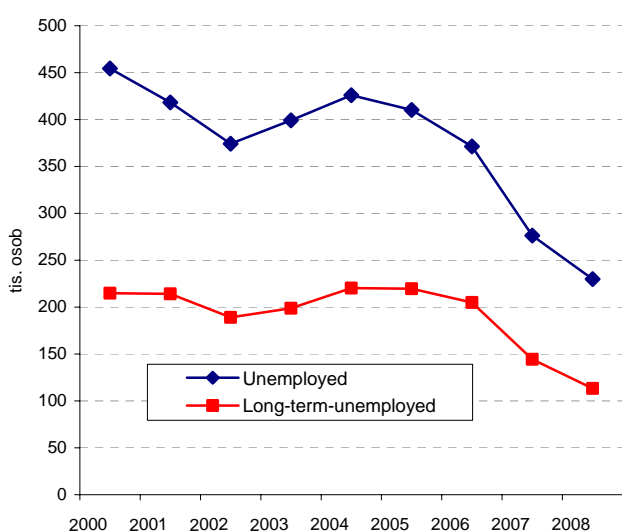
2.3. Labour market

Falling unemployment, including long-term unemployment¹

- **Unemployment reached a low point** Unemployment continued to fall in 2008. The fall lasted continuously from 2005: with the exception of fluctuations in 2003 and 2004, a falling trend has been noted since 2000, when unemployment achieved its long-term maximum.

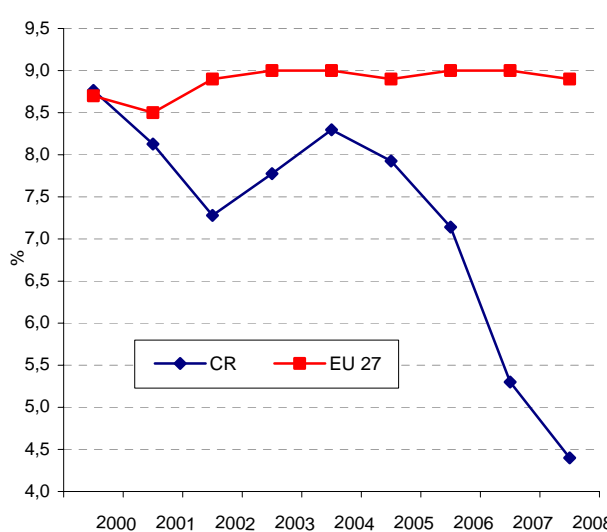
The absolute fall in unemployment also manifested itself in relative numbers; the changes in the rate of unemployment occurred similarly, so the unemployment rate in 2008 amounted to an average of 4.4%. The year-on-year reduction was by 0.9 of a percentage point, which was less than in 2007. Within the quarters, the seasonally adjusted unemployment rate fell from the 1st quarter of 2007 and it rose slightly in the 4th quarter of 2008.

Graph no. 2.3.1 Unemployment (in thousands of individuals)



Source: the Czech Statistical Office, LFSS

Graph no. 2.3.2 The unemployment rate (in %)



Source: the Czech Statistical Office, LFSS

- **The share of the long-term unemployed fell**

The development of unemployment was also favourable in a year-on year comparison in 2008. The unemployment rate was lower than the average for the EU 27 and the Eurozone average. At the same time, the regional differences in unemployment were reduced and long-term unemployment also fell with the growth in the numbers of job opportunities.

The numbers of long-term unemployed remained at a relatively high level from 2000. It was higher than the average of the EU 15, although it was lower than in Poland and Slovakia. Since the 4th quarter of 2007, the rate of the long-term unemployed has been under half the total (falling) unemployment rate (in the 4th quarter of 2008, it reached 46.5%).

Increased employment and its structure

- **Employment was the highest since 1996**

In 2008, employment grew year-on-year by 1.6% (according to the LFSS), which was admittedly less than in 2007, but was still above the average for the last four years. The growth in employment did, however, slow to 1.3% in the 4th quarter of 2008 from its maximum in the 4th quarter of 2007 (2.2%).

The average employment in 2008 thus reached 5,002.5 thousand people. The employment rate followed a similar development and it has long been above the average for the EU 15.

An international comparison must, however, take into account the fact the length of the working hours which were also longer in the Czech Republic than in other

¹ Data according to the LFSS

European countries. There were three causes: the relatively high share of entrepreneurs in the total employment numbers who report a higher number of hours spent at work, the relatively high share of overtime worked (especially by men) and also the relatively low share of part-time work (especially for women).

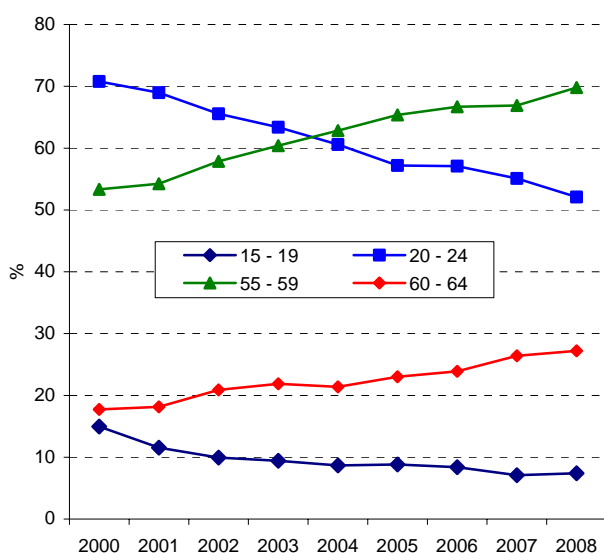
• **The changes in the structure of economically active individuals**

Whereas the overall rate of economic activity fell over the long term, it fell more substantially in the age group from 15 to 24 years of age as a consequence of the increasing numbers of students. On the other hand, it has increased since 2000 in the age group from 55 and older as a consequence of the extension of the retirement age. The degree of activity of individuals aged 55 and older also grew steeply in the countries of the EU 15.

A further employment indicator is also the number of individuals working part time, whose share of the overall employment stagnated somewhat after 2000. In the year-on-year comparison, however, there was an exceptionally low share of women working part time and in the Czech Republic this amounts to approximately just one sixth of the EU 15 level. For all that, however, part-time work is a solution which better suits the interests of some women (especially those who are looking after small children) and employers.

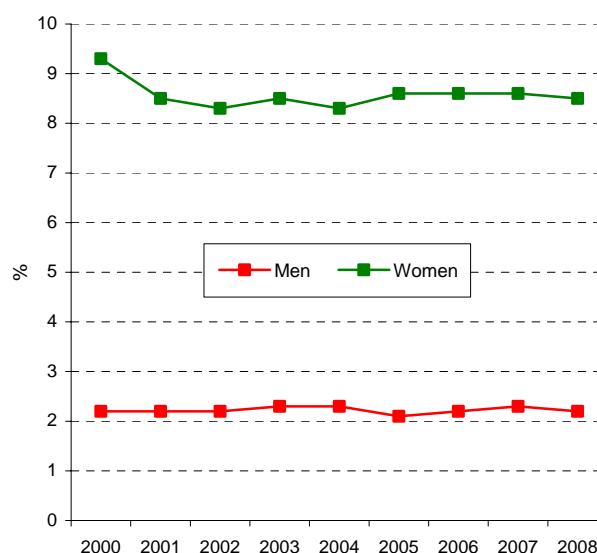
2008 followed approximately in the trend of these long-term changes.

Graph no. 2.3.3 The rate of economic activity (in %)



Source: the Czech Statistical Office

Graph no. 2.3.4 The share of individuals in part-time work (in %)



Source: the Czech Statistical Office

• **The inertia of the further structural characteristics in employment**

2008 did not change the tendencies in the structure of employment which were prevalent in the period from 2001 to 2007. These include the growing share of employed individuals with higher education and the relatively high share of employment in sector II, especially in the processing industry and therefore the relatively low share of the tertiary sector which does not correspond to the economic level of the Czech Republic. Despite that, however, the growth in the secondary sector slowed in the 4th quarter of 2008 and the number of individuals employed in the processing industry even fell.

Main factors influencing labour market

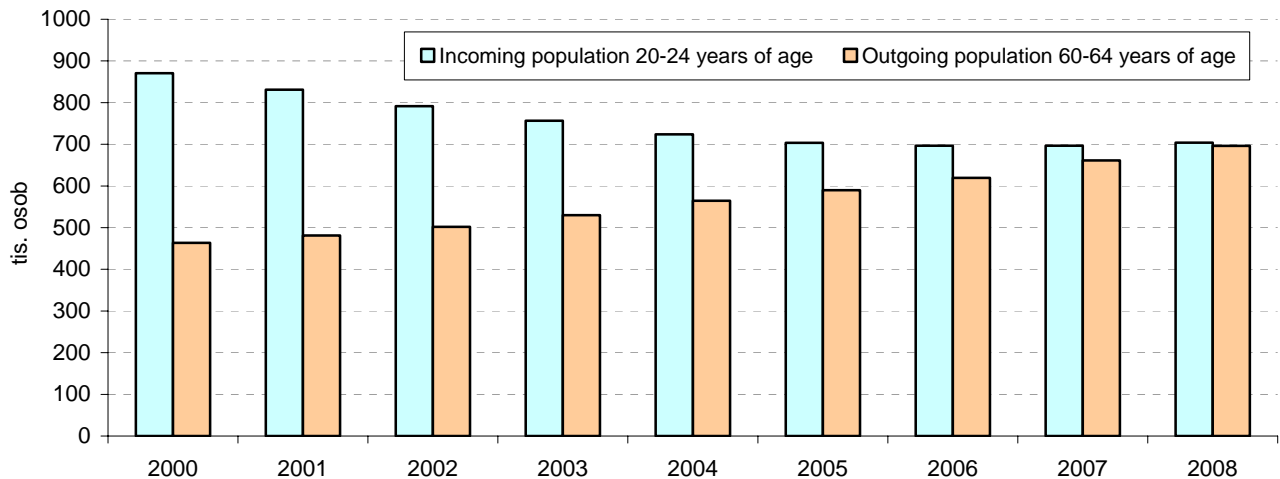
• **Conflicting changes in supply and demand**

The analysed period from 2001 to 2008 was marked by the concurrence of a number of favourable factors in the labour market. The growth in demand for goods and services meant that employment grew. This was also valid for 2008 as a whole; at the conclusion of the year, however, it was clear that demand was weakening.

Demographic factors affected the supply side and slowed its growth. The numbers of the “incoming” members of the population (20 – 24 years of age) fell from 2000, while the numbers of the “outgoing” members of the population (60-64 years of age)

gradually grew. Both tendencies more or less balanced each other out in 2008, so the growth in the thus defined supply stopped. The demographic development was, of course, modified (as has already been stated above) by two conflicting social factors: the slowdown in the potential supply was increased by the growth in the numbers of students and women who are temporarily economically inactive. On the other hand, the supply was increased by the numbers of working individuals older than 55 and working foreigners.

Graph no. 2.3.5 Supply and demand in the labour market (demographic changes in thousands of individuals, status as of 1.7.)



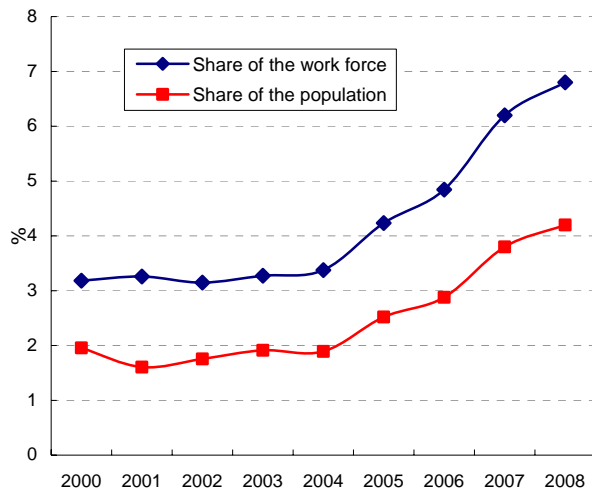
Source: the Czech Statistical Office

- ***The structural imbalance in the labour market has been replaced with the symptoms of overall imbalance***

The market was also marked by a structural imbalance. Since 2004, growing numbers of foreigners have occupied jobs which in particular did not suit the domestic supply professionally or due to the amount of the wage and employment has grown. On the other hand, the unemployed did not make use of all the free jobs due to their structure which did not correspond to the qualifications of the unemployed (demand) and unemployment did not fall commensurately to the growth in the numbers of jobs meaning that the number of unoccupied jobs increased.

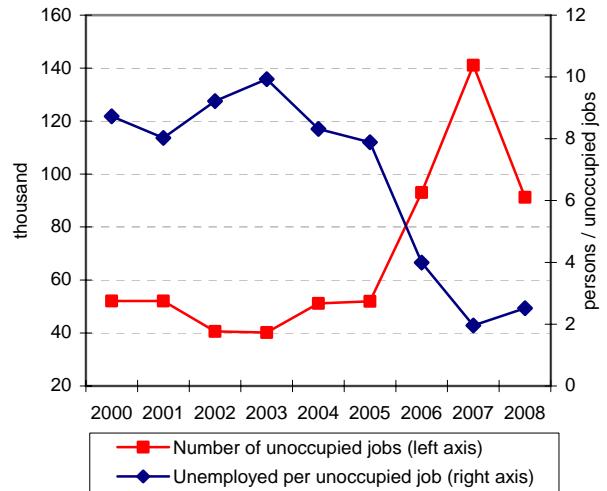
Falling unemployment was thus accompanied by accelerating numbers of employed foreigners and at the same time by a rapidly increasing number of unoccupied jobs. The numbers of employed foreigners grew further in 2008 and as of 31.12.2008 had reached 361.8 thousand individuals, but the numbers of unoccupied jobs fell substantially in the 3rd and 4th quarters of the year after several years of growth (to 91.2 thousand), as a consequence of which the fall in the number of unemployed individuals per job ceased.

Graph no. 2.3.6 Foreigners
(the share of foreigners in %)



Source: the Czech Statistical Office, MPSV, MV

Graph no. 2.3.7 Unoccupied jobs (as of 31.12.) and the unemployed/unoccupied jobs



Source: the Czech Statistical Office, MPSV

Labour market and three factors of wage development

- ***The nominal wage grew substantially in 2008***

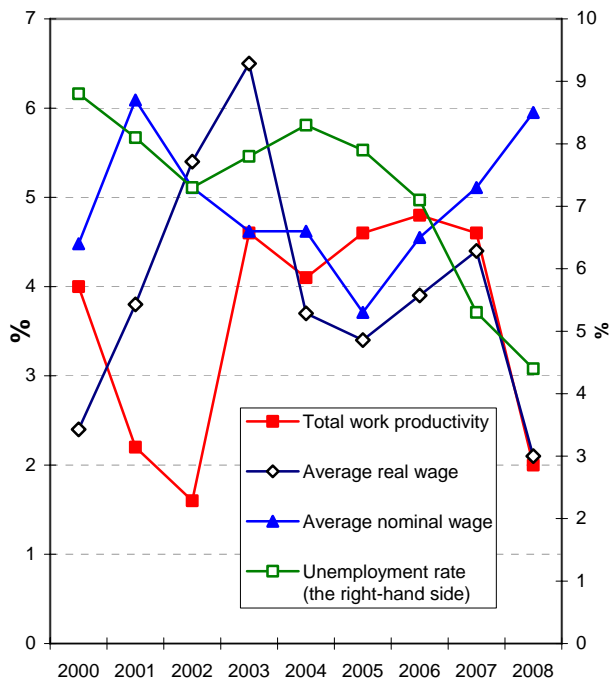
The average nominal wage grew in 2008 by 8.5% according to the information on labour statistics. This exceptional growth is usually explained by means of the specific situation in that year (inflation, etc.), but here we will concentrate on a more general explanation within the context of the analysed period. Three basic factors are projected into the development of wages.

The wage (or, in general, the price of work) is downwardly flexible, although this now applies less in the dynamics; the changes in the growth rate follow the changes in the labour market. This is also confirmed by Graph 2.3.8 which shows that a change in the unemployment rate (as an approximation of the changes in the labour market) influences the rate of growth in the nominal wage to a certain extent (see the two highlighted curves on the graph).

It is precisely this relationship which explains the given paradox that the relationship between the work productivity growth rate and the nominal wage was relatively free, even though the wage growth rate was recorded as being in front of work productivity in the entire period from 2001 to 2008 (cumulatively).

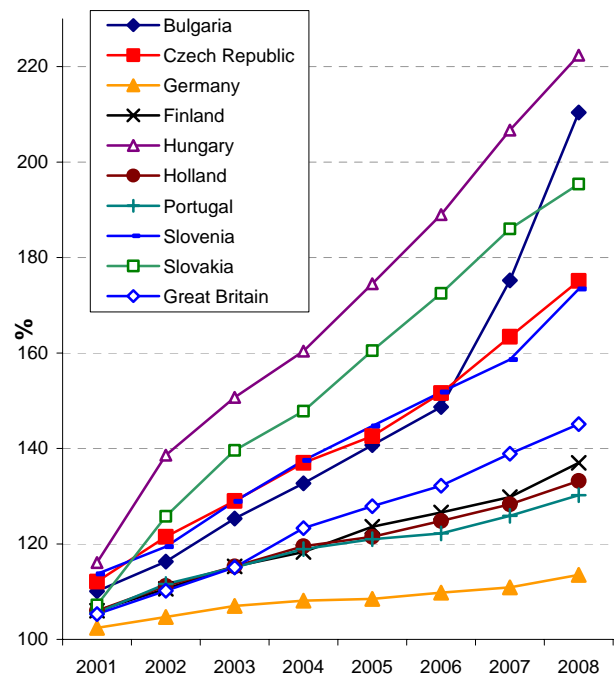
This fact is associated with the third influence, which is the long-term convergence of the level of wages (in general, the price of work) with the level in the developed countries of the EU (Graph 2.3.9).

Graph no. 2.3.8 Wages, the rate of unemployment and work productivity (year-on-year change in %)



Source: the Czech Statistical Office

Graph no. 2.3.9 Growth in the total wage costs (nominal, the year 2000 =100)



Source: Eurostat

Changes in use of human resources (2000 to 2008)

- **An analysis of the use of human resources**

The fluctuations in the rate of employment (or unemployment) are only one of the factors which influence the use of "human resources", i.e. the overall influence of the potential of the population on the growth in GDP². The interpretation of the data in Graf 2.3.10 enables the identification of three different periods.

Graph 2.3.10 Changes in the use of human resources (the previous year = 100)



Source: Eurostat, the Czech Statistical Office

² data according to SNA at the Czech Statistical Office

- ***The growth in intensity and the fall in the extensive use of human resources (2000 to 2003)***

The starting point is the hourly work productivity (GDP/worked hours). In the period from 2001 to 2003, this grew on average by 4.5% per year, which can be ascribed to the influence of the restructuring of the economy in the 1990s. But the growth in GDP did not yet correspond to this. Not only did the number of worked hours fall, but the employment rate or the use of the population of a productive age also fell.

The traditionally measured work productivity per worker did not grow as quickly as the hourly work productivity in this period and its acceleration in comparison with the period before the year 2000 was also less distinctive. The regularly measured GDP work productivity per worker conceals the use of the working hours; it does not have to involve any stoppages and it also conceals the (from some points of view useful) part-time aspect, but also the opposite overtime aspect which plays a more significant role in the Czech Republic (in an international comparison).

Despite the fact that the ratio of the population of an active age to the overall population has grown on the one hand thanks to the high birth rates among the younger population and on the other hand thanks to the fall in the departures of older inhabitants from the workplace, other changes took place within the active population (as has already been stated). The share of students grew, as did the share of women caring for families or households, but most of all there was still high unemployment.

- ***The growth in the extensive use of human resources (2004 to 2007)***

There was a change in the relationship in the period from 2004 to 2007. The hourly work productivity admittedly continued to grow relatively quickly (on average by 4.3%) thanks to, amongst other things, the effect of foreign investments, but it was somewhat slower for all that. However, the work productivity per worker, or to put it more simply the use of the working hours, increased significantly by an annual average of 4.4%. Not only that, the rate of use of the active population, or more precisely the relationship of employment to the population of an active age, also grew. The number of students admittedly continued to grow, but unemployment fell especially quickly. At the same time, the number of people employed in a post-productive age also grew and, given that the share of the population in an active age grew only minimally, the overall use of the human resources potential also grew.

- ***2008 – a new phase***

In 2008, the symptoms of the start of the third phase (the recession – the slowdown in growth) manifested themselves along with the associated changes in the use of the potential of the population. At the same time, the growth in work productivity per worker fell more substantially (2.0%) than the hourly productivity (2.5%). The growing use of the population in an active age ceased, especially as a consequence of the halt in the fall of unemployment at the end of the year. And the ratio of the population in an active age to the population in general worsened (an aging population). The result is the slowdown in the growth of the use of the population's potential.