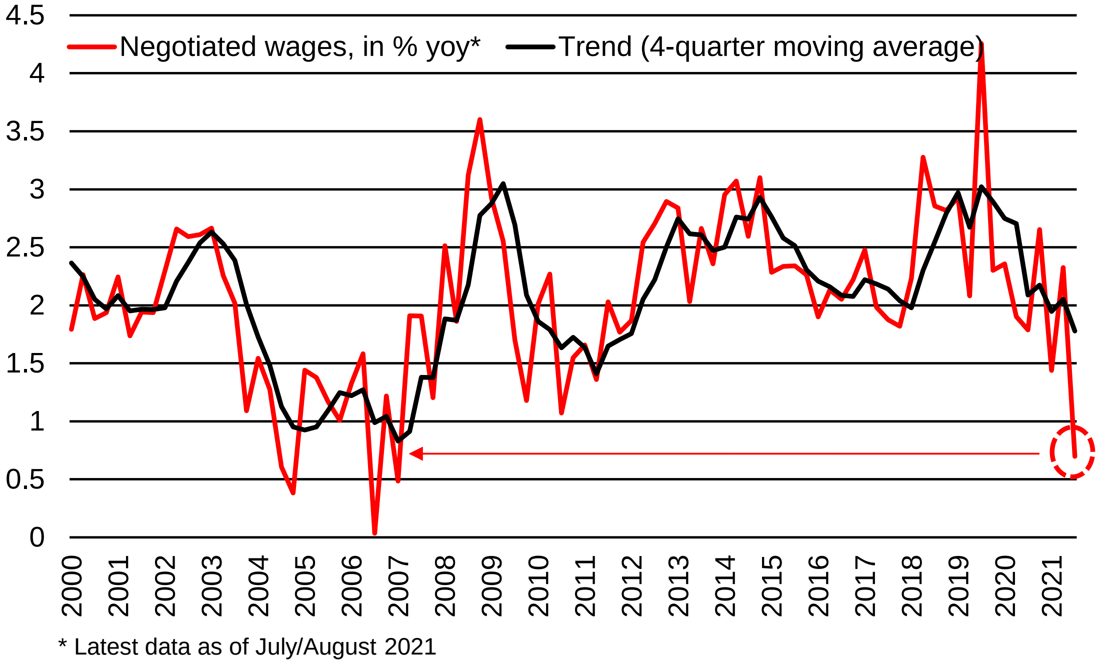
No wage pressure from Germany supports ECB's temporary inflation narrative



Source: Deutsche Bundesbank, UniCredit Research

- While inflation hawks have priced in a rather high likelihood of a 10bp hike by the end of next year, our Chart of the Week shows that the temporary inflation narrative of the ECB is alive and kicking. Although companies in Germany, the single most important economy in the eurozone, have recently complained about the lack of personnel, there are no signs of second-round effects in the form of substantially higher wages. On a smoothed basis, the latest available wage data for July/August 2021 provided by the Bundesbank flag a rise of less than 2% yoy.[1)] Without any smoothing, negotiated wages even only rose less than 1% yoy, its lowest increase in nearly 15 years!

- The latest wage moderation in Germany is not a flash in the pan, in contrast. The recent wage settlements in the retail, wholesale and construction sectors also signal pay hikes of about 2% on average for next year. Since there are only two important collective bargaining rounds still pending by autumn 2022, moderate wage rises in the next 9-12 months on a macro level are basically cut and dried. The collective bargaining round in the public sector on a federal states and communal level (2.7mn employees, civil servants and pensioners), where an increase of 5% has been demanded, will be resumed next week. In Hessen, there was already an agreement about ten days ago with a rise of about, yes, 2% yoy. The negotiations in the chemical industry (0.6mn) might take place in spring of next year. The collective bargaining round in the metal & electro industry (3.8mn) will only start in 4Q22 and hence at a time when supply shortages may have become less severe and inflation rates have come down again.

- The hike of the minimum wage by 25% to EUR 12 per hour in 2022, which has been envisaged by SPD, Greens and FDP in their coalition talks, is not a game changer but a one-off effect. Although it would apply to 8-10mn employees, or 20-25% of dependent employees (total employment excluding self-employed), single shifts in the wage level do not imply a rising trend in underlying inflation, as ECB chief economist Philip Lane recently put it. This would only be the case if the higher minimum wage would be used by labor unions later-on for shifting upward the whole wage curve. But even in this case, it would not be a story for next year but for 2023 and 2024.

- For more on the ECB, BoE and the implications for markets, watch our latest UniCredit Research Webcast – BoE and ECB on different trajectories.

[1)] The wage data are conducted on a monthly basis and include special payments such as Christmas bonus, holiday pay, etc. The data cover about 500 collective bargaining and wage agreements in 40 sectors and roughly 20mn employees which equals about half of the employees in Germany. Typically, the data also serve as a benchmark for wage hikes in companies which are not part of the collective bargaining rounds.

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