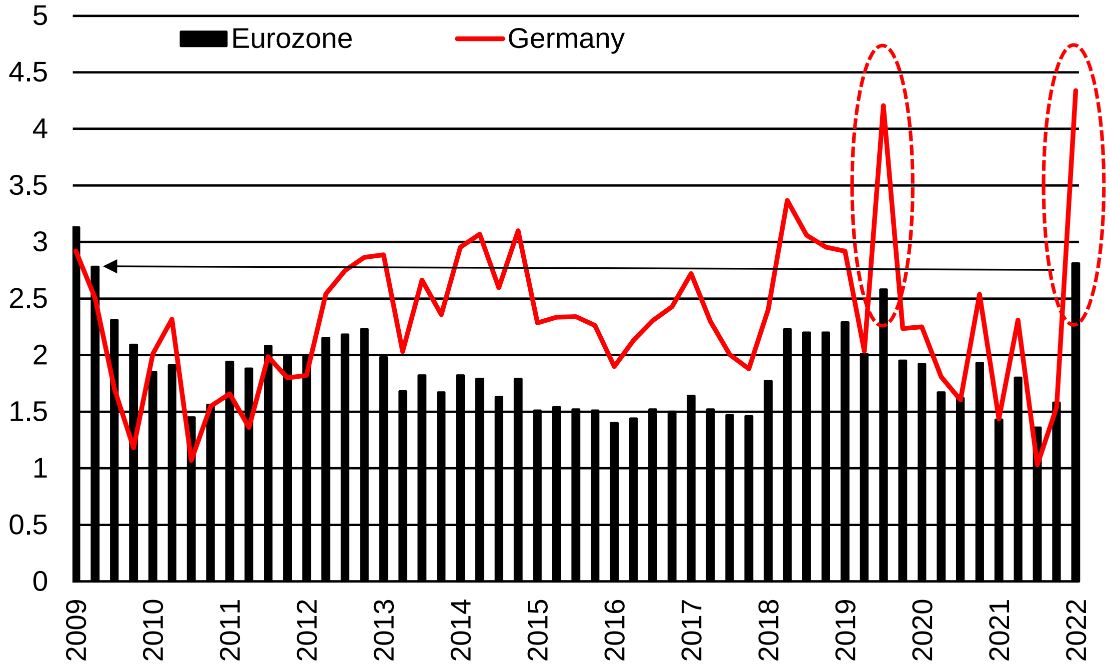
Still no signs of a wage-price spiral in eurozone

Negotiated wages, in % yoy (for Germany: including special payments)



Source: ECB, Deutsche Bundesbank, UniCredit Research

- Today's release of negotiated wages in the eurozone showed a rise to 2.8% yoy in the first quarter of 2022 (4Q21: +1.6%). It was the strongest increase since 2009 and seemingly confirms what some economists and central bankers feared for quite some time: wage inflation has started to accelerate markedly in the eurozone. Resolute action by the ECB would be needed now to avoid a wage-price spiral, the sooner the better and maybe even a hike by 50bp.

- A second more careful look reveals a different and subtle picture. The latest pick-up in eurozone wages was largely caused by Germany where negotiated wages jumped to 4.3% yoy from 1.5%. And here is the catch: As the methodology in capturing negotiated wages is somewhat different across eurozone countries, the German figure includes special payments and is far more volatile than the eurozone data (see also the spike in 2019). In yesterday's release of its monthly report, the Bundesbank already noted that the pay hike was "*mainly due to high special payments and corona bonuses. By contrast, basic compensation adjusted for such special payments increased by only 1.6%*."

- In other words, there are still no signs of excessive and wide-spread wage increases in the eurozone. For the record, negotiated wages in Italy were still below 1% yoy in 1Q22 and about 2½% for Spain and the Netherlands, while the French figure is not available yet. Typically, the ECB sees eurozone wage growth of 3% as consistent with 2% inflation over the medium term. The latest figure might support calls for gradual policy normalization by the majority of the Governing Council of the ECB but does not justify a 50bp hike.

- Yesterday, Bundesbank President Nagel stated for Germany that "*when wage negotiations start in the second half of the year, we will see higher numbers*". We agree but how much it will be and whether it really requires monetary tightening is impossible to say at this stage. After all, there is a lot of uncertainty about how the economy will perform, especially in the manufacturing sector which is facing substantial downside risks in the form of lower growth dynamics in China and persistent supply shortages. Going forward, there are two important collective bargaining rounds in the pipeline for Germany. In the metal industry with nearly 4mn employees, the labor union will publish its wage demand at the end of June with negotiations starting in mid-September at the latest. In the chemical sector (0.6mn employees), the negotiations about a regular pay hike will be continued in October after the agreement on a one-off payment in April.

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