

Snap | 22 August 2024

## Eurozone wage growth drops drastically, paving the way for a September cut

The decline in eurozone negotiated wages from 4.7% to 3.6% in the second quarter was more than expected. While there could still be upside surprises to wage growth later in the year, today's wage growth reading makes a September cut by 25bp even more likely



While economic activity has remained sluggish and forecasts have moved in the right direction, the European Central Bank has remained uncomfortable with cutting interest rates while wage growth is elevated. Today's drop will bring some relief for those looking for a gradual cutting cycle as the 3.6% year-on-year negotiated wage growth is more in line with a benign inflation outlook in the medium term.

However, it has to be said that wage growth is still too high for the 2% inflation target given weak productivity growth. But forward-looking indicators do still show moderating wage growth over time as more purchasing power is recouped and economic activity is expected to remain moderate. With some productivity pickup to be expected, wage pressures on inflation in the medium term should ease further.

Still, the road to wage moderation could be bumpy and the second half of 2024 could still bring some upside surprises as unions – most notably in Germany – continue high wage demands at the start of negotiations. While that is great for consumers and would lift the economic outlook somewhat, it could potentially be a curveball for the ECB later in the year.

But for September, a barrier to another cut seems to have been lifted. ECB President Christine Lagarde already emphasised satisfaction with wage growth expectations and the fact that profits have been absorbing higher wage growth. With today's numbers showing a drop in wage growth, expectations of a September 25bp cut are growing increasingly firm.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).