Eurozone wage growth drops, much to ECB doves' delight

The latest wage growth figures from Europe were weaker than expected, providing further confirmation to ECB doves that a self-sustaining inflation is still a way off.

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Momentum in the labour market has been strong for quite some time now, with solid employment growth and stronger than expected declines in the unemployment rate. While the unemployment rate is still above its historical average, businesses concerns about labour shortages are becoming more widespread.

While this is the case, wage pressures remain weak at best for the moment. In fact, it is difficult to see any upward trend in wage growth for now as it fails to recover from the weakest rates seen since the start of the Labour Cost Index in 2001. A country like Germany, with an unemployment rate well below the natural rate, saw wage growth of just 1.9% YoY in Q1.

1.4%

Worse than expected

Eurozone wage growth (Q1, YoY%)

Based on Labour Cost Index

Broader unemployment measures do indicate that the slack in the market is still very significant in the Eurozone, which means that it could be quite some time before the wage growth starts to pick up. Moreover, structural factors like weak productivity growth, globalization and digitization also seem to be contributing to weaker wage growth.

> *It could be quite some time before wage growth starts to pick up*

This has a potentially dampening effect on the inflation rate and could therefore hinder the recovery of inflation to the ECB target of "just under 2%". The ECB staff projections for June already cast doubt on the future path of policy normalization, but weakening wage growth could undermine future projections further.

This release coincides with the final estimate of May inflation, which was confirmed to have declined to 1.4% YoY as well. ECB president Draghi has indicated that he looks to a wage growth recovery as it will be key to a self-sustained adjustment in the inflation rate - this could be a while to come.

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