

Snap | 19 June 2017

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.



Source: Shutterstock

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%

Eurozone wage growth (Q1, YoY%)

Based on Labour Cost Index

Worse than expected

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.

Author

Bert Colijn

Senior Economist, Eurozone

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 <http://www.ing.com>.