# Eurozone wage growth improves but mind the trade data

Some positive data from the eurozone for a change. Wage growth improves to 1.8% year on year in 1Q. Weak growth in exports in goods in April rounds out a disappointing month for eurozone industry though

Source: istock

Wage growth increased modestly according to the Labour Cost Index, up from 1.6% in 4Q 2017 to 1.8% YoY in 1Q 2018. As the collective bargaining agreement for the German steel and metal industry has boosted negotiated wages from 1.6% to 1.9% YoY growth in the eurozone as a whole, today's LCI wage growth is probably mostly related to that. This modest improvement in wage growth seems to have given the ECB a lot of confidence in a sustained improvement of inflation to target even though that puts a lot of weight on a 0.2% improvement.

There are good arguments for improving wage growth in the second half of the year though. The labour market has been improving significantly over the past few years and labour shortages have reemerged. Together with the conventional unemployment rate, broader measures of slack have been coming down. An indicator showing that labour is hindering business activity has risen to a level not seen since this was first measured in 1985. This shows that the improvements may be there, but are not yet widespread. Wage growth is therefore likely to continue to improve at a modest pace, confirming our view of a slow recovery in core inflation for the second half of 2018.

Seasonally-adjusted trade data showed a mixed bag with imports growing faster than exports in April, 1.4% and 0.4% MoM, respectively. As this data is nominal, higher oil prices have probably boosted the imports data which will not show up in the GDP figures. The exports data was already weaker than in previous months and from June onwards, the impact of the steel and aluminium tariffs will come into the mix. Clouds around the trade outlook will therefore persist, even though the outlook for eurozone domestic demand remains positive with strengthening wages and employment growth at a stable pace.

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