Eurozone wages are on the rise (finally)

The ECB negotiated wages indicator increased more than expected in the first quarter. This puts pressure on the ECB to act quickly in normalising monetary policy

The most reliable indicator of where wages are currently headed was released this morning and rose from 1.5% YoY to 2.8% YoY, a notable jump that was much larger than anticipated. The combination of a tight labour market and high current inflation provides a strong argument for unions to demand higher wages and this seems to be feeding into results at the moment. With important German negotiations only happening at the end of the year, there seems potential for higher wage growth from here on.

While the increase alleviates the blow to households from current high inflation rates, we do want to stress that real wage growth remains deep into negative territory at the moment. This still leads to a substantial weakening of household consumption in the months ahead, according to our expectations.

For the ECB though, this is key from the point of view of second-round effects emerging. As mentioned above, we're still far from a wage-price spiral emerging, but ECB chief economist Philip Lane had mentioned that wage growth at 3% is consistent with reaching the goal of 2% inflation in the medium term. Reaching this more quickly than expected could result in the ECB becoming more concerned with inflation trending above target for longer.

Like the PMI that was released this morning, this adds a hawkish argument to the debate about how quickly the ECB should increase rates from here on. In our view, a 50 basis point hike in July is not off the table.

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