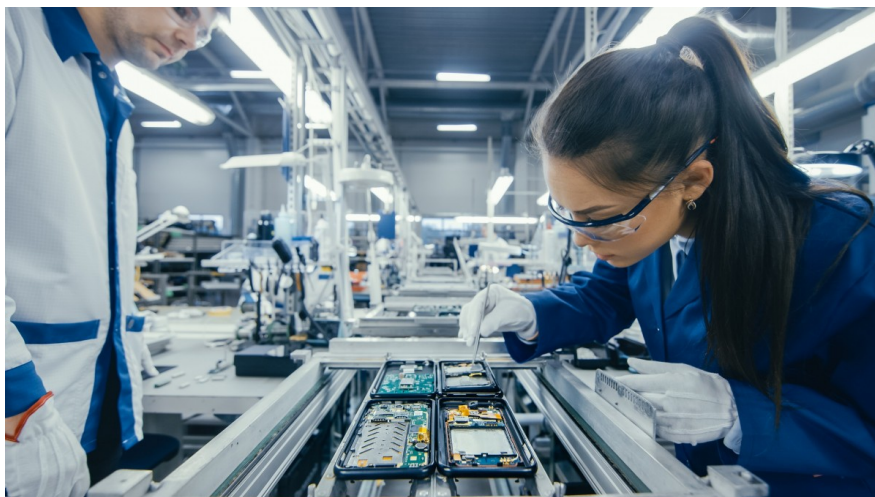


German wage settlement points to dampened second-round effects

A regional wage agreement in Baden-Wuerttemberg yesterday will pave the way for broader wage developments and shows the European Central Bank that second-round effects will kick in next year but should be dampened



Last night, employers and unions in the metal and electronics industry in Baden-Wuerttemberg reached a new wage agreement. Wages will be increased by 5.2% in June 2023 and by 3.3% in May 2024. There will also be a one-off payment of €3,000, exactly the amount the German government had offered to exempt from tax and social security contributions. While this is "only" a regional wage agreement, it will have knock-on effects on other regional and sectoral wage negotiations. Almost four million people in Germany work in the metal and electronics industry.

Traditionally, there has been a lot of attention on German wage settlements across the eurozone. The takeaway for German wage developments and the risk of second-round effects is that last night's deal shows what a compromise can look like. It won't be enough to fully offset the drop in purchasing power caused by higher inflation, but it softens the damage. For the ECB, it signals that second-round effects remain dampened and that a lower, subdued inflationary pressure can last for longer than markets currently think.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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.