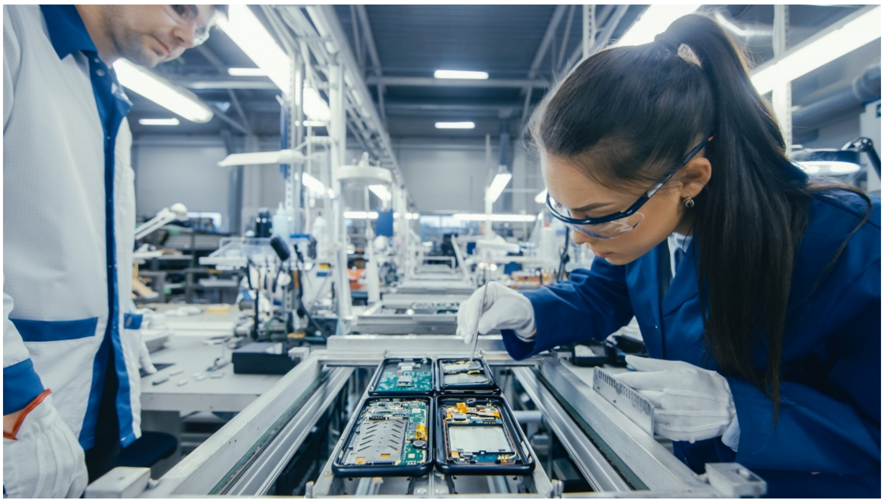
German wage settlement points to dampened second-round effects

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.

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