

Snap | 15 September 2017

Goldilocks economy lives on as Eurozone wage growth picks up

Wage growth numbers confirm pipeline inflation pressures are slowly improving ahead of the ECB October meeting



Source: iStock

Wage growth increased to 2% in 2Q17, the fastest growth since 1Q15.

Good news for ECB hawks, wage growth picked up in Q2. Still, when looking at the seasonally adjusted data which seem more relevant than the reported headline, growth picked up from 1.6% to just 1.8%. This is hardly a jump. While the improvements remain small and wage growth is still well below its pre-crisis average, this is at least some indication that the recent improvements in the economy are working its way through to price growth.

The improvement in wage growth confirms the Goldilocks economy lives on.

With an important decision about tapering ahead in October, this will be a welcome sign that

pipeline inflation pressures are at least improving. While that is the case, this increase in wage growth will not make a huge difference for inflation expectations in 2018 and 2019 yet.

Signs have been pointing to modest improvements in wage growth for some time now. The recovery of the labour market maintains a solid pace, with 650 thousand jobs added in Q2 and the unemployment rate has come down to 9.1%. While this is still elevated, it is coming closer to the natural rate of unemployment, around which wage growth acceleration should be observed.

The job vacancy rate has also been increasing and has hit 1.9% in Q2, indicating that labour shortages have slowly been resurfacing. Still, broader unemployment measures indicate that the labour market continues to show significant slack. That also explains why wage growth in the Eurozone remains well below its average of the pre-crisis period.

The improvement in wage growth is also further confirmation that the Goldilocks economy lives on. With inflation expected to weaken a little in the coming months, real wage growth is improving. This will further underpin the consumption recovery and helps GDP growth maintain a solid pace of 2% YoY in the second half of the year.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

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