Snap | 23 May 2024

Stubborn eurozone wage growth provides hawkish signs for ECB

Negotiated wage growth in the eurozone ticked back up in the first quarter from 4.5% to 4.7% year-on-year. This boosts the purchasing power recovery, but provides an uneasy sign for the ECB ahead of its first interest rate cut since 2019

Eurozone wage growth ticked back up slightly in the first quarter, mainly on the back of a strong increase in Germany. The increase was unexpected as wage growth is set to moderate, but a catch-up effect in Germany allowed for another increase at the start of the year. This helps purchasing power to recovery more quickly than expected, which should boost household consumption and in turn bolster the cautious economic recovery the eurozone has embarked on.

The European Central Bank has recently put a lot of emphasis on wage growth coming down as a condition for rate cuts, and the question is how much this unexpected increase will startle it ahead of the June meeting in two weeks. The labour market remains tight as businesses continue to hire, but at the same time, forward-looking indicators for wage growth remain relatively benign – especially as a lot of wage agreements tend to follow inflation more than lead it.

The question also remains as to how fast wage growth can ultimately come down, as current levels of wage growth are still associated with above 2% inflation. While it may make the debate around the table more heated in two weeks' time, we don't think that this will deter the ECB from cutting in June – but it likely cements a hold in July.

While the eurozone economy has been performing sluggishly for some time and inflation has fallen back towards target faster than expected, enough uncertainty remains to not expect a traditional rate cutting cycle to emerge. Today's wage data will serve as a prime example of that.

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