

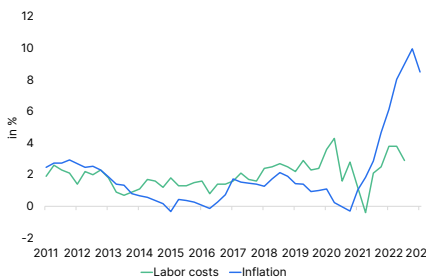
# Week Ahead

Focus: Eurozone labor market

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## EZ labor costs / hour vs. inflation



Source: Eurostat, Erste Group Research

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Note: Past performance is not necessarily indicative of future results

## EZ – No wage price spiral to be seen

The Eurozone unemployment rate stabilized at 6.6% in December. It seems to have found its temporary bottom at this historically low level. A further slight decline can still be observed in Germany and Italy, while the level in France has stabilized. In contrast, a slight increase can already be observed in Spain.

Despite the tightening labor market in 2022, combined with a sharp rise in inflation rates triggered by supply-side tightening (energy prices and supply chain issues), wage dynamics in the Eurozone have remained subdued. Based on data for the first three quarters of 2022, an inflation rate of 7.7% contrasts with wage cost growth per hour worked of only 3.5%. The growth momentum of wage costs has even already fallen slightly again to 2.9% y/y in 3Q22. The bottom line is that employees have suffered considerable real wage losses, which could be partly compensated for by special state payments.

So far, the Eurozone data does not suggest that rising wage pressure is or could become a driving factor for inflation. It is now important to closely monitor developments in 2023. At the country level, the historical trend of below-average wage growth in Southern Europe continues. For example, the cost per hour worked increased by only 2% in Italy in 2022 and by 2.3% in Spain. Workers in France suffered the smallest real wage losses, with growth of 3.4%.

In the case of Italy, a lack of focus on technologically high-value export goods is likely to be a factor in the low wage pressure. This means that Italy, unlike Germany for example, is still in direct competition with low-wage countries, making it difficult to push through wage increases. Moreover, due to below-average productivity, Italy can only maintain its competitiveness through wage dumping. But in the medium term, the substantial investments of the EU Recovery Plan, combined with structural reforms, should sustainably improve the positions of Italy and Spain.

Because of these structural problems, we see little likelihood of wages becoming a driver of inflation in the Eurozone. However, it is important to monitor developments at the country level. In principle, inflation dynamics should ease steadily in 2023 after a sustained easing in both energy prices and supply chains. This should also ease the pressure for wage increases.

## Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
<b>Eurozone</b>						
EA	14-Feb	11:00	GDP q/q	4Q P	0.1%	0.1%
EA	14-Feb	11:00	GDP y/y	4Q P	1.9%	1.9%
<b>USA</b>						
	14-Feb	14:30	Inflation y/y	Jan	6.2%	6.5%
	15-Feb	14:30	Retail Sales mom	Jan	1.6%	-1.1%
<b>China</b>						

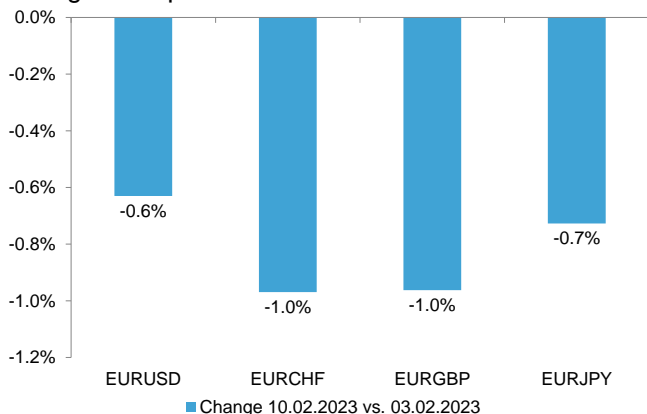
## Central bank events

	Date	Time	Representative	Forum	Location
<b>ECB</b>	13-Feb		Christine Lagarde	Participation	Eurogroup Meeting Brussels
	14-Feb		Luis de Guindos	Participation	ECOFIN Meeting Brussels
	15-Feb	15:00	Christine Lagarde	Speech	Plenary debate ECB Annual Report 2021
	16-Feb	16:00	Philip Lane	Speech	National Institute of Economic and Social Research (NIES) in London
<b>Fed</b>	10-Feb	18:30	Christopher Waller	Speech	Global Interdependence Center Conference
	13-Feb	14:00	Michelle Bowman	Speech	American Bankers Association Conference
	16-Feb	22:00	Lisa Cook	Speech	Sadie Collective Research Reception

Source: Market Data Provider, ECB, Federal Reserve, Erste Group Research

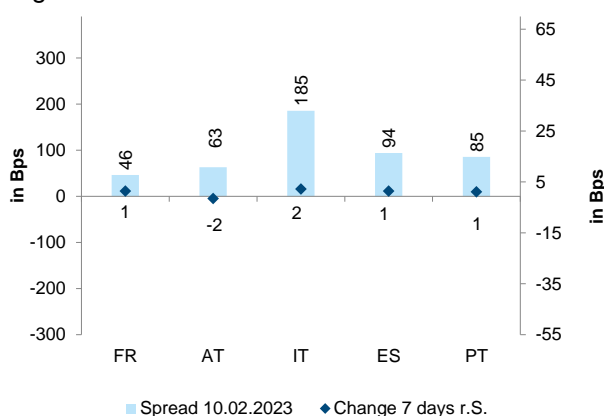
## Forex and government bond markets

**Exchange rates EUR: USD, CHF, GBP and JPY**  
 Changes compared to last week



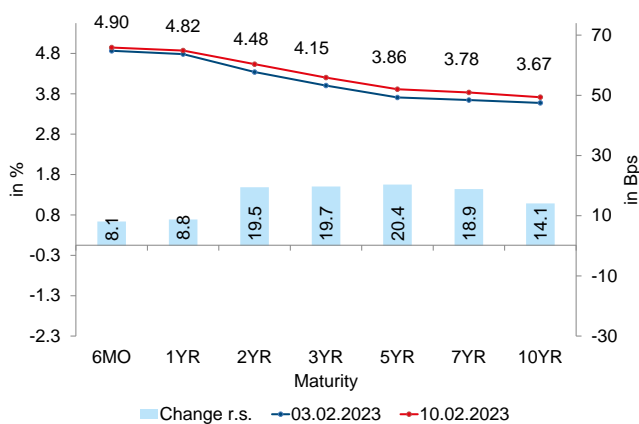
Source: Market Data Provider, Erste Group Research

**Eurozone spreads vs. Germany**  
 10Y government bonds



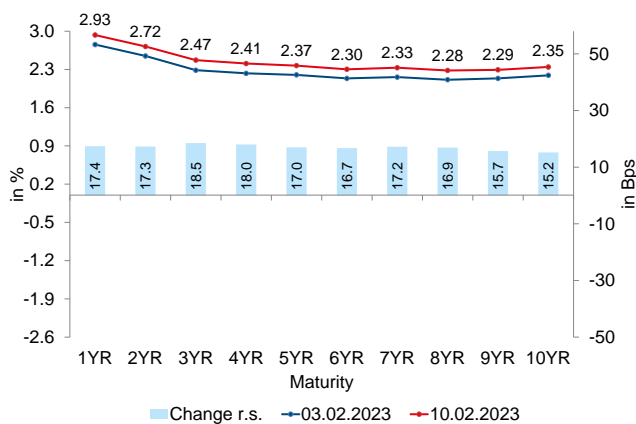
Source: Market Data Provider, Erste Group Research

**US Treasuries yield curve**  
 Changes compared to last week



Source: Market Data Provider, Erste Group Research

**DE Bund yield curve**  
 Changes compared to last week



Source: Market Data Provider, Erste Group Research

## Forecasts<sup>1</sup>

<b>GDP</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Eurozone</b>	5.3	3.5	0.6	1.2
<b>US</b>	5.7	2.0	1.2	1.1

<b>Inflation</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Eurozone</b>	2.6	8.4	5.6	2.3
<b>US</b>	4.7	8.0	2.9	1.9

<b>Interest rates</b>	<b>current</b>	<b>Mar.23</b>	<b>Jun.23</b>	<b>Sep.23</b>	<b>Dec.23</b>
<b>ECB MRR</b>	3.00	3.50	3.75	3.75	3.75
<b>ECB Deposit Rate</b>	2.50	3.00	3.25	3.25	3.25
<b>3M Euribor</b>	2.61	3.11	3.20	3.24	3.28
<b>Germany Govt. 10Y</b>	2.35	2.20	2.00	1.90	1.90
<b>Swap 10Y</b>	2.89	2.80	2.50	2.40	2.40

<b>Interest rates</b>	<b>current</b>	<b>Mar.23</b>	<b>Jun.23</b>	<b>Sep.23</b>	<b>Dec.23</b>
<b>Fed Funds Target Rate*</b>	4.58	4.88	4.88	4.88	4.63
<b>3M Libor</b>	4.86	4.96	4.96	4.96	4.71
<b>US Govt. 10Y</b>	3.67	3.50	3.30	3.10	2.90
<b>EURUSD</b>	1.07	1.08	1.08	1.10	1.12

\*Mid of target range

*In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.*

*Source: Market Data Provider, Erste Group Research*

<sup>1</sup> Note: In accordance with regulations, we are obliged to issue the following statement:  
 Forecasts are not a reliable indicator of future performance.

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