COMMERZBANK

Economic Research

Economic Insight

ECB: Deceptive wage hopes

6 February 2025

Dr. Marco Wagner [AC]

Table of contents

The ECB justifies its expectation of declining inflation mainly by the fact that its Wage Tracker indicates significantly weaker wage growth for the second half of the year. However, due to its design, this indicator often underestimates wage trends, particularly in the longer term. Current collective wage negotiations indicate that wages are likely to rise significantly more strongly in the second half of the year than indicated by the wage tracker. This is another reason why the ECB's interest rate cuts are likely to come to an end in the middle of the year.

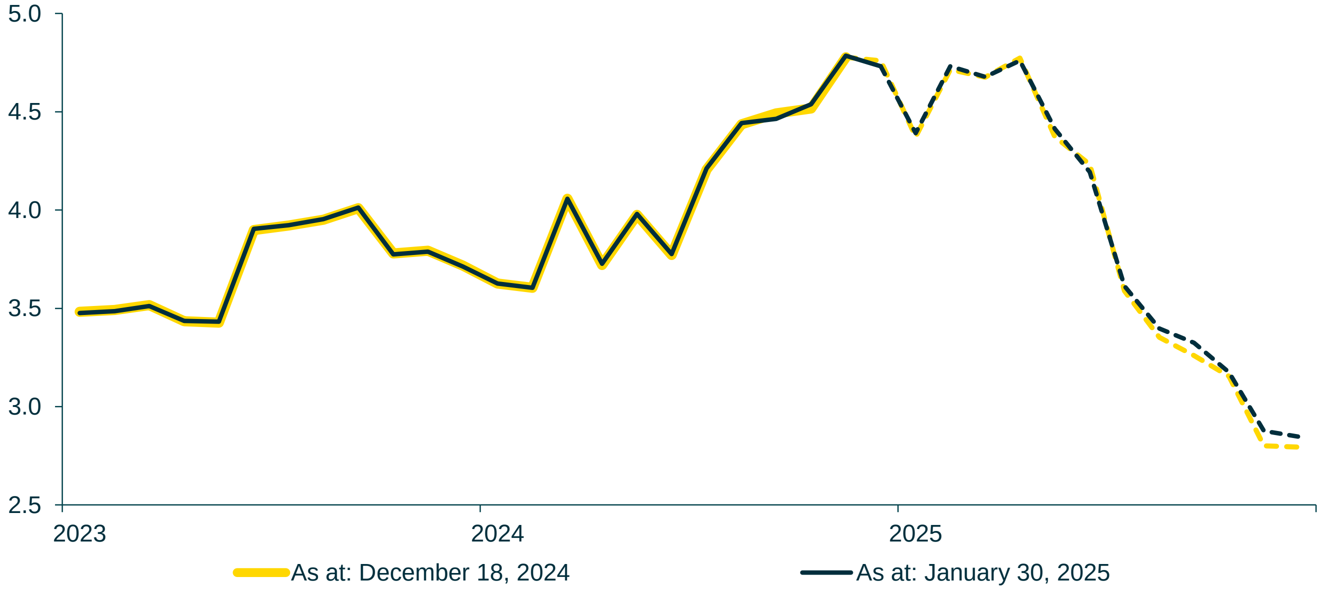
ECB Wage Tracker slightly drifting upwards

One of the ECB's reasons for expecting falling inflation rates is that its experimental wage tracker signals a significantly weaker rise in wages for the second half of the year (Chart 1). For a long time, this was only shown as a chart in presentations by some Council members, but since December it has been published on the ECB's Data Portal. The data is updated on the Wednesday after each monetary policy meeting.

In our **Economic Insight "The ECB's wage mirage"**, we pointed out the risk that the Wage Tracker underestimates the rise in wages. This is because it only takes into account collective wage agreements that have already been concluded for the coming months. However, collective agreements that are currently being negotiated and may include significant wage increases are not taken into account. As a result, the latest Wage Tracker is regularly higher than the previous one. The difference between the Wage Tracker based on the data from December 18 and January 30 is only quite small because hardly any new wage agreements were concluded around Christmas and New Year. However, a number of collective bargaining rounds are likely to be concluded in the coming weeks - in which the trade unions are still demanding wage increases, some of which are quite substantial.

Chart 1 - ECB Wage Tracker with upside risks

ECB Wage Tracker (excluding special payments), based on data on collective wage agreements in Germany, France, Greece, Italy, Austria, the Netherlands and Spain, in percent compared to the previous year



Source: ECB, Commerzbank Research

Germany: Higher wage agreements in the pipeline

In Germany, for example, the trade unions are still demanding fairly decent pay rises for the five sectors currently in collective bargaining with employers, although a higher increase is often demanded – and in most cases ultimately agreed – for trainees or those on lower salaries:

- In January, the central collective bargaining committee of the German Railway and Transport Union (EVG) opened the 2025 collective bargaining round with its demands to Deutsche Bahn AG. The demand includes a wage increase of 7.6% and a further 2.6% for shift workers, which can be exchanged for additional days off.

- At Deutsche Post AG, the ver.di bargaining committee is demanding a wage increase of 7.0% for employees with a term of 12 months, as well as 3 additional vacation days.

- For the public sector, ver.di is demanding a pay rise of 8.0% over a period of 12 months.

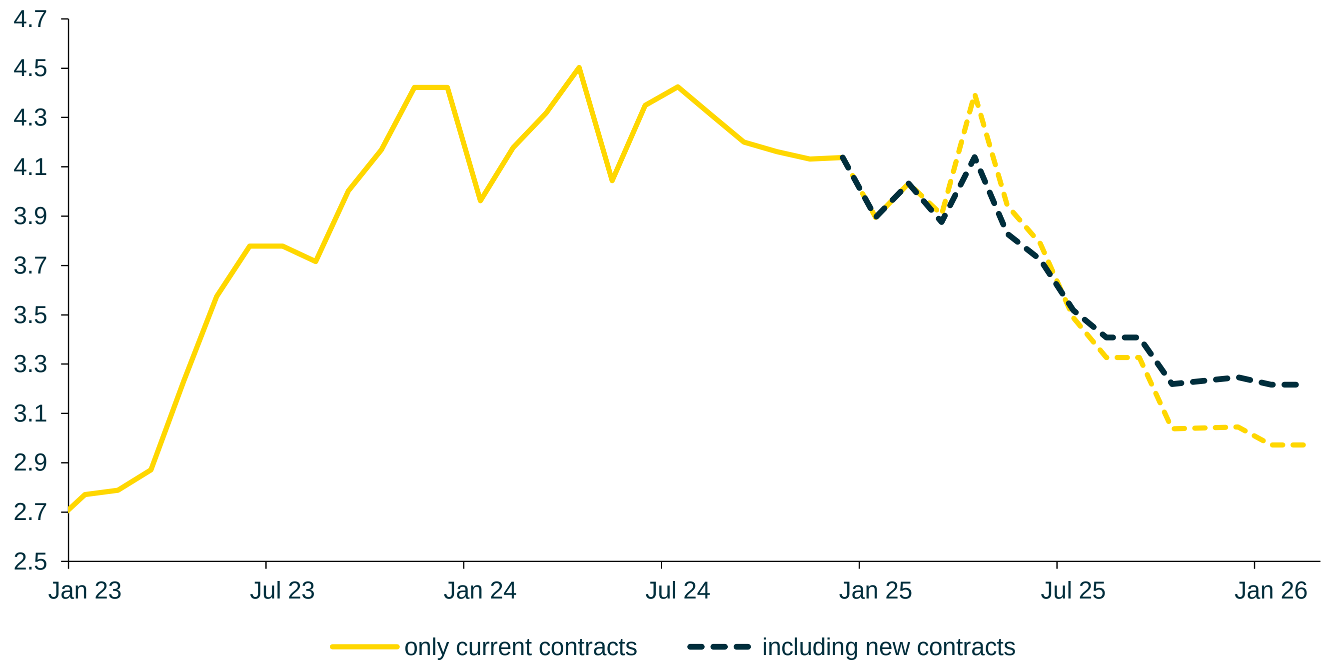
- IG Metall wants to push through a wage increase of 6.5% for employees in the West German textile and clothing industry. The agreement is to run for 12 months.

- ver.di is demanding a 7.5% wage and salary increase for employees in the paper, cardboard and plastics processing industry.

Of course, these high demands will not be implemented to the same extent. However, given the still solid labor market in Germany, wage settlements are likely to be higher than before the pandemic.

Using Germany as an example, we have calculated how such wage agreements would be reflected in the wage tracker in the coming months. To do this, we have calculated a "Germany Wage Tracker" based on the ECB model. If only the wage agreements already concluded are taken into account, it would fall to around 3% by the end of the year (Chart 2). However, if we also take into account the new collective agreements concluded in the coming months – we assume an average increase of 4% for the five sectors from March – the Germany Wage Tracker would be noticeably higher in the second half of the year.

Chart 2 - "Germany Wage Tracker" likely to move upwards
Collective agreements (excl. one-off payments) in Germany's most important sectors: Wage Tracker from 2025 takes into account 1) only existing collective agreements and 2) also newly negotiated agreements (for which we assume an average of 4%), in %



Source: WSI, Commerzbank Research

Wages also continue to rise sharply in other countries

Germany is not alone in continuing to demand high wages. Wages in other euro countries are also likely to rise more strongly than the ECB Wage Tracker suggests:

- In the Netherlands, trade unions are continuing to demand high wage increases for the coming months, citing the still very tight labor market and high corporate profits as reasons. The largest trade union, the FNV, is demanding a wage increase of 7% for its members. Other unions such as the CNV are somewhat more moderate in this respect, but are still demanding wage adjustments of between 3½% and 6%.

- In Spain, the government reached an agreement with the trade unions just last week to raise the general minimum wage (SMI) by EUR 50 per month with retroactive effect from January 1. This corresponds to an increase of 4.4% compared to the previous year. In addition, the Spanish government decided just the day before yesterday to reduce the general working week from 40 to 37.5 hours, while keeping wages the same. Ultimately, this also represents a pay rise.

- In Austria, however, wage demands and final wage agreements are somewhat more cautious, which is also due to the previous very strong wage increases. In the private bus and coach sector, vida's demands of 3.7% and the employers' offer of 3.5% are not far apart. In the mineral oil industry, wages will rise by an average of 3.4% as of

February 1. The agreements in smaller sectors are also in a similar range, which is still more than expected by the Wage Tracker for the eurozone as a whole.

End of interest rate cuts from the middle of the year

Overall, there are many indications that the ECB Wage Tracker will be significantly higher than today, particularly in the second half of the year. This is likely to shake the ECB's expectation that inflation will stabilize at 2%, which is why further interest rate cuts would be less easy to implement. We believe the end point will be reached at a deposit rate of 2% by the middle of the year, especially as from then on a gradually improving economy will not justify any further interest rate cuts.

Analysts

Dr. Marco Wagner AC
Senior Economist
+49 69 9353 45623
marco.wagner@commerzbank.com

This report was completed 6/2/2025 07:39 CET and disseminated 6/2/2025 07:39 CET.

This document has been created and published by the Group Research department (GM-R) within the Group Management division of Commerzbank AG, Frankfurt/Main or Commerzbank's non-US branch offices mentioned in the document.

Analyst Certification (AC): The author(s), denoted by AC at the beginning of this report, individually certifies that the views expressed in this report accurately reflect their personal views about the subject securities and issuers; and no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document.

It has not been determined in advance whether and in what intervals this document will be updated. Unless otherwise stated current prices refer to the most recent trading day's closing price or spread which may fluctuate.

Conflicts of interest

Disclosures of potential conflicts of interest relating to Commerzbank AG, its affiliates, subsidiaries (together "Commerzbank") and its relevant employees with respect to the issuers, financial instruments and/or securities forming the subject of this document valid as of the end of the month prior to publication of this document*:

Please refer to the following link for disclosures on companies included in compendium reports or disclosures on any company covered by Commerzbank analysts: **https://commerzbank.bluematrix.com/sellside/Disclosures.action***

*Updating this information may take up to ten days after month end.

Disclaimer

This document is for information purposes only and has been prepared for recipients who, like professional clients according to MiFID II, have the experience, knowledge and expertise to understand information related to the financial markets. The document does not take into account specific circumstances of any recipient and the information contained herein does not constitute the provision of investment advice. It is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the financial instruments and/or securities mentioned in this document and will not form the basis or a part of any contract or commitment whatsoever. Investors should seek independent professional advice and draw their own conclusions regarding suitability of any transaction including the economic benefits, risks, legal, regulatory, credit, accounting and tax implications.

The information in this document is based on public data obtained from sources believed by Commerzbank to be reliable and in good faith, but no representations, guarantees or warranties are made by Commerzbank with regard to accuracy, completeness or suitability of the data. Commerzbank has not performed any independent review or due diligence of publicly available information regarding an unaffiliated reference asset or index. The opinions and estimates contained herein reflect the current judgement of the author(s) on the date of this document and are subject to change without notice. The opinions do not necessarily correspond to the opinions of Commerzbank. Commerzbank does not have an obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

In order to address potential conflicts of interest Commerzbank's Research department operates independently of other business units of the bank. This is achieved by way of physical and administrative information barriers and separate reporting lines as well as by written internal policies and procedures.

This communication may contain trading ideas where Commerzbank may trade in such financial instruments with customers or other counterparties. Any prices provided herein (other than those that are identified as being historical) are indicative only, and do not represent firm quotes as to either size or price. The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. Any forecasts or price targets shown for companies and/or securities discussed in this document may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by Commerzbank or by other sources relied upon in the document were inapposite.

Commerzbank and or its affiliates may act as a market maker in the instrument(s) and or its derivative that has been mentioned in our research reports. Employees of Commerzbank and or its affiliates may provide written or oral commentary, including trading strategies, to our clients and business units that may be contrary to the opinions conveyed in this research report. Commerzbank may perform or seek to perform investment banking services for issuers mentioned in research reports.

Neither Commerzbank nor any of its respective directors, officers or employees accepts any responsibility or liability whatsoever for any expense, loss or damages arising out of or in any way connected with the use of all or any part of this document.

Commerzbank may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Commerzbank endorses, recommends or approves any material on the linked page or accessible from it. Commerzbank does not accept responsibility whatsoever for any such material, nor for any consequences of its use.

This document is for the use of the addressees only and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of Commerzbank. The manner of distributing this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves about and to observe such restrictions. By accepting this document, a recipient hereof agrees to be bound by the foregoing limitations.

Additional notes to readers in the following countries:

Germany: Commerzbank AG is registered in the Commercial Register at Amtsgericht Frankfurt under the number HRB 32000. Commerzbank AG is supervised by both the German regulator, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Strasse 108, 53117 Bonn, Marie-Curie-Strasse 24-28, 60439 Frankfurt am Main and the European Central Bank, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany.

United Kingdom: This document is not for distribution to retail customers and has been issued or approved for issue in the United Kingdom by Commerzbank AG, London Branch, which is authorised and regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

United States: This research report was prepared by Commerzbank AG, a company authorized to engage in securities activities in Germany and the European Economic Area (EEA). Commerzbank AG is not a U.S. registered broker-dealer and is therefore not subject to U.S. rules regarding the preparation of research and associated rules pertaining to research analysts. This document is not for distribution to retail customers. Any distribution of this research report to U.S. investors is intended for “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6(a)(2) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). Any U.S. recipient of this research report seeking to effect transactions to buy or sell securities, or related financial instruments based upon the information provided in this research report, may only do so through a Financial Industry Regulatory Authority (FINRA) registered broker-dealer. Commerz Markets LLC (CMLLC) is a U.S. registered broker-dealer and wholly owned subsidiary of Commerzbank AG. Commerzbank AG is a registered derivatives swap dealer with the Commodity Futures Trading Commission (CFTC), in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act. U.S. Person(s) and related Dodd-Frank relevant investors seeking to effect transactions in non-security based swaps based upon the information provided in this research report, may only do so through a CFTC registered swap dealer.

Canada: The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. Under no circumstances is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. In Canada, the information contained herein is intended solely for distribution to Permitted Clients (as such term is defined in National Instrument 31-103) with whom Commerzbank AG and/or Commerz Markets LLC deals pursuant to the international dealer exemption. The information contained herein is not permitted to reference securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, as Commerzbank AG and Commerz Markets LLC operates under the international dealer exemption pursuant to National Instrument 31-103. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon these materials, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence.

European Economic Area: Where this document has been produced by a legal entity outside of the EEA, the document has been re-issued by Commerzbank AG, London Branch for distribution into the EEA. Commerzbank AG, London Branch is authorised and regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

Switzerland: This document is generally not for distribution to retail clients. Neither this research report nor the information contained herein should be regarded as personal recommendations for transactions in financial instruments within the meaning of the Financial Services Act.

Singapore: This document is furnished in Singapore by Commerzbank AG, Singapore branch. It may only be received in Singapore by an institutional investor, an accredited investor or an expert investor as respectively defined in section 4A of the Securities and Futures Act, Chapter 289 of Singapore (“SFA”) pursuant to section 274 or section 275 (as applicable) of the SFA. Nothing in this document constitutes accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication. Further, the communication/information provided herein does not constitute a “financial advisory service” within the meaning of the Financial Advisers Act, Chapter 110 of Singapore (“FAA”) and therefore, the regulatory requirements and duties that may be owed to a client pursuant to or in connection with the FAA are not applicable to the recipient in connection with this communication. Recipients are advised to seek independent advice from their own professional advisers about the information contained discussed herein.

Japan: This information and its distribution do not constitute and should not be construed as a "solicitation" under the Financial Instrument Exchange Act (FIEA) of Japan. This information may be distributed from Commerzbank international branches outside Japan solely to "professional investors" as defined in Article 2(31) of the FIEA and Article 23 of the Cabinet Ordinance Regarding

Definition of Article 2 of the FIEA. Please note that Commerzbank AG, Tokyo Branch has not participated in its preparation. Any instruments referred in this report cannot be introduced by the Branch. You should contact the Corporate Clients division of Commerzbank AG for inquiries on availability of such instruments.

Australia: Commerzbank AG does not hold an Australian financial services licence. This document is being distributed in Australia to wholesale customers pursuant to an Australian financial services licence exemption for Commerzbank AG under Class Order 04/1313. Commerzbank AG is regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) under the laws of Germany which differ from Australian laws.

People's Republic of China (PRC): This document is furnished by Commerzbank AG and is only intended for eligible entities in the PRC. No-one else may rely on any information contained within this document. The products and services in this document only apply to entities in the PRC where such products and services are permitted to be provided by PRC laws and regulations. For any person who receives this document, the information in this document shall neither be regarded as promotion or solicitation of the business nor accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication, and the recipient is advised to seek independent advice from its own professional advisers about the information contained herein and shall understand and abide by PRC laws and regulations while conducting any related transactions.

Commerzbank Offices

Frankfurt	**London**	**New York**	**Singapore**
Commerzbank AG	Commerzbank AG	Commerz Markets LLC	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus	PO BOX 52715	225 Liberty Street, 32nd floor,	128 Beach Road
Mainzer Landstraße 153	30 Gresham Street	New York,	#17-01 Guoco Midtown
60327 Frankfurt	London, EC2P 2XY	NY 10281-1050	Singapore 189773
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000