

Macro resilience does not negate the value of optional protection by central banks

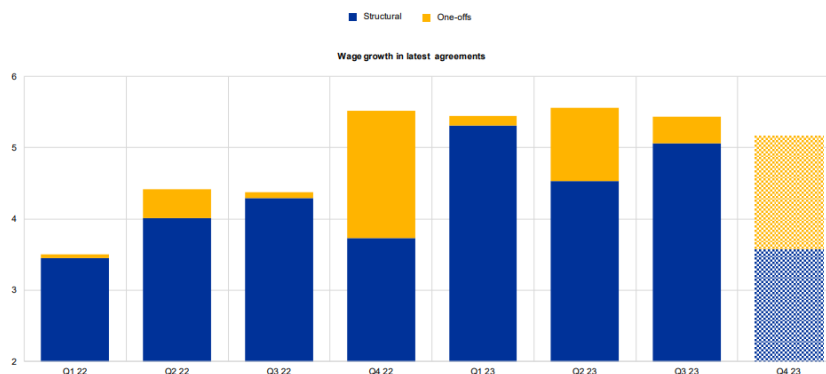
12 February 2024

Dear Clients and Partners,

Will it be March, April, May, June? Debate is raging among economists about when the Federal Reserve and/or the European Central Bank will first cut rates. While this issue is of vital importance for money market investors, it seems relatively minor for equity investors. Timing is less important than direction; this is the idea behind optional protection by central banks. Contrary to the fears of some analysts, the latest statistics on both sides of the Atlantic do not negate the value of this protection; rather, they only extend its maturity.

Until then, the ECB's latest analysis of wages in the eurozone points to a stabilisation of growth and the beginnings of a downward trend (cf chart 1). Momentum remains too high, but within this upward shift the breakdown between structural dynamics and one-off increases is favourable. The ECB is counting on the scenario of an economic recovery in 2024 that is based on wages increasing more than inflation in 2024 – i.e. real wages increasing and catching up, at least in part, to the loss of purchasing power that has accumulated over the past two years. Nevertheless, this game of catch-up must not evolve into a wage-price spiral, although at present there is no evidence to suggest that this may occur. For example, wage growth for the fourth quarter of 2024 in France is at 0.3%, after coming in at 0.5%, 1% and 1.9% respectively over the previous three quarters.

Euro area wage tracker
(percentage point contributions)

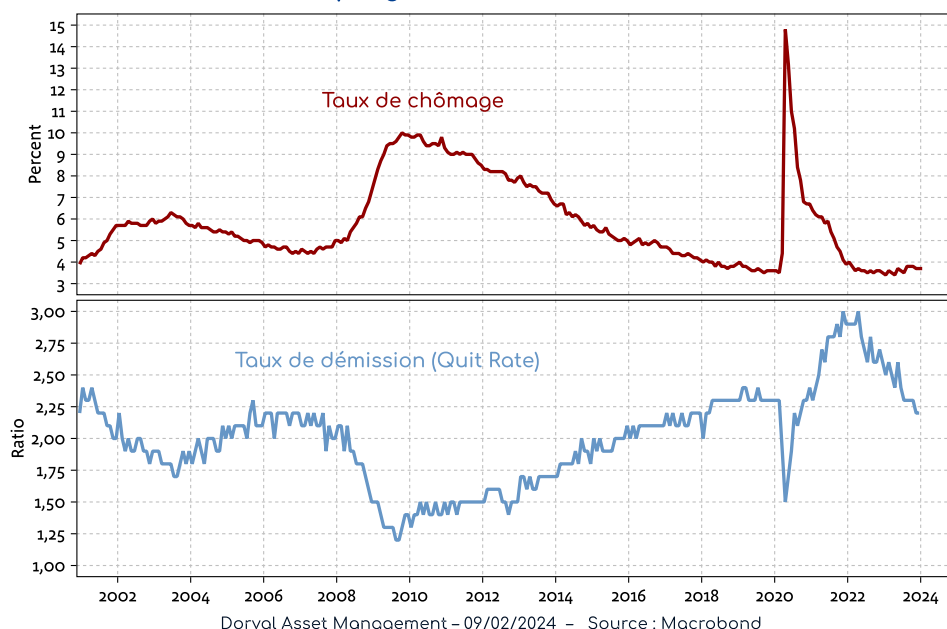


Source: Calculated based on micro data on wage agreements provided by Deutsche Bundesbank, Banco de España, the Dutch employer association (AWVN), Oesterreichische Nationalbank, Bank of Greece, Banca d'Italia and Banque de France.
Notes: Euro area aggregate based on DE, FR, IT, ES, NL, AT, GR, as of December 2023. The indicator of latest agreements reflects wage growth in the agreements reached in a certain quarter for the 12 months after an agreement. One-offs payments are spread over 12 months from the agreed disbursement date - smoothing the impact of one-off payments on wage growth. 2023Q4 for wage growth in latest agreements is preliminary as not all collective agreements reached in 2023Q4 are available yet. For the methodology, see also Górnicka, L. and G. Koester (eds.) 2024: "A forward-looking tracker of negotiated wages in the euro area". Eurosystem wage tracker experts. ECB Occasional Paper No. 338. European Central Bank (forthcoming).
Latest observations: 2023 Q4.

In the United States, the strength of the economy is being called into question. It should be noted that following an annualised growth of 4.1% in the second half of 2023, the latest coincident indicators (Nowcasts by Atlanta Fed, NY Fed and Now-Cast.com) are converging towards growth of just above 3% annualised for the first quarter of 2024. So, what conclusion are we to come to? That monetary conditions are still too flexible? That monetary policy has no impact on demand? That expansionary fiscal policy counteracts restrictive monetary policy? It seems to us that the normalisation of supply conditions in the wake of COVID disruptions is still playing a major role in the economy as this new year begins, be it in the labour market, household consumption or price dynamics. For example, in the labour market the unemployment rate remains low, but the quits rate – which is often considered a good indicator of the state of the labour market – has returned to pre-COVID levels (cf chart 2).

US labour market gradually cooling off

Un refroidissement progressif du marché du travail américain



Percent *Unemployment rate* / Ratio *Quits rate*

The reassuring presence of central banks is not a driver of market performance in itself, but it does serve to encourage risk-taking. Thus reassured, investors can look beyond the cyclical trough in Europe, the strain on regional banks in the United States (and more broadly on commercial real estate), or even geopolitics.

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