

Economics

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Spain

Wage Moderation Already at a Turning Point?

- According to data published yesterday by the Spanish Labour Ministry, wage deals in January saw an average increase of 2.98%. This is significantly higher than the average negotiated pay rise in 2010, of 1.3%, and is the highest reading since Dec 08. Data showed 1.3 million workers were covered by the new wage deals – 19% more than in Jan-10. At the end of last year, 7.2 million employees were covered by the wage deals struck in 2010, 47% of all employees.
- The step-up in negotiated wage growth in Jan was likely due, to a large extent, to the recent surge in CPI inflation and to the wage indexation mechanisms to past inflation still extensively used in many wage negotiations (see Figure 1). CPI inflation surged to 3.0% YY in Dec-10, up from 0.8% YY in Dec-09, on the back of higher indirect taxes, administered prices and energy prices. Historically low inflation in 2009-mid-10 generated a significant slowdown in contractual wage growth in 2010, to 1.3%, from 3.5% in 2008.
- Although the dynamic of actual earnings could differ for quite some time from negotiated wages, the latter does provide a reference value around which actual earnings normally fluctuate. If sustained, the pick-up in contractual wage growth will be reflected in higher actual wage growth in 2011. This would represent an inversion of the downtrend recorded over the past 1½ years: growth in monthly labour earnings per worker decelerated from around 5% YY in 2008 to just 0.1% YY in Q3 10 (see Figure 2).
- A re-acceleration in wage growth would be in sharp contrast to a still deteriorating situation in the labour market, with the unemployment rate rising again to 20.3% in Q4 10 and employment still shrinking by 1.3% YY. The lack of wage sensitivity to labour market conditions is one of the reasons why in Spain the adjustment in the use of labour during the recession has occurred mainly via job cuts and surging unemployment rather than through wage restraint. Re-accelerating wages are likely to delay further any early attempt at job creation and hope of stabilization in the unemployment rate.
- Recent developments in wage deals will give further support to those advocating the abolition of wage indexation clauses to past inflation – with the Bank of Spain and ECB as the most vocal advocates of this issue – amidst the ongoing debate, at the national and European level, about the necessary structural reforms to enhance medium-term growth in Spain.

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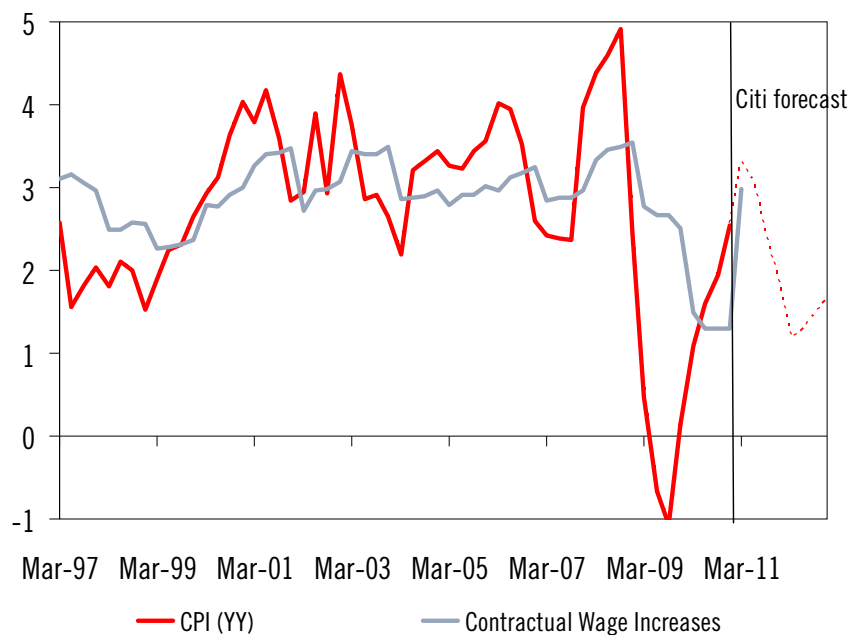
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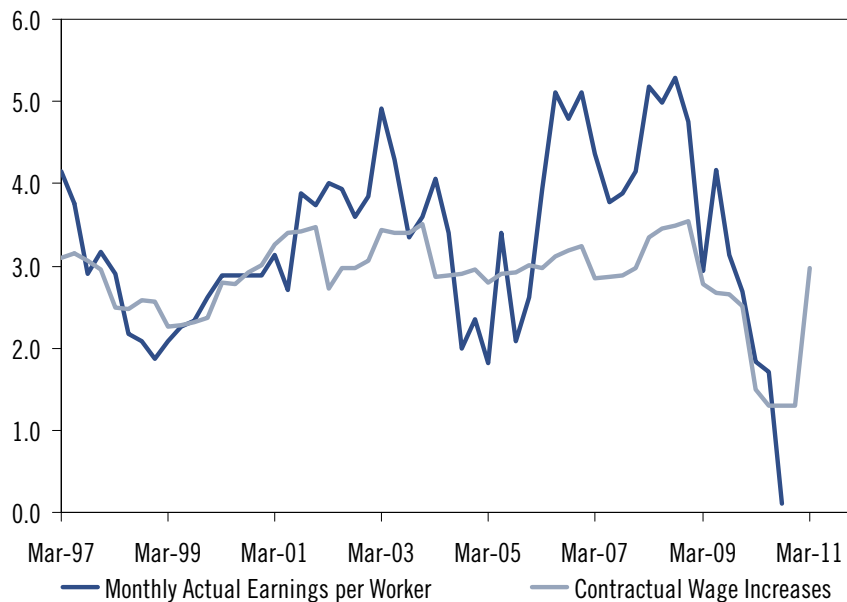
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Figure 1. Spain – CPI Inflation (YY) and Negotiated Wage Deals (%)



Sources: Haver Analytics, Spanish Ministry of Labour and Citi Investment Research and Analysis

Figure 2. Spain – Actual Labour Earnings (YY) and Negotiated Wage Deals (%)



Sources: Haver Analytics, Spanish Ministry of Labour and Citi Investment Research and Analysis

Appendix A-1

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