LBBW Bereit für Neues

To the point!

Cross-Asset- and Strategy-Research

Trade unions should tread carefully

LBBW_Research

Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

February 17, 2023

Please preserve the tradition of cooperative wage negotiations!

Last year was not a good one for employees in Germany. Prices rose by 7.9% in the course of the year. By contrast, nominal wages climbed by just 2.3% by the third quarter. For full-time employees, the increase was as low as 1.7%. The loss of real purchasing power was higher than it had been for decades. Unions exercised restraint in the face of the looming economic crisis in the wake of feared energy shortages. That was responsible.

Are the levees about to break?

But possibly not for long. In early 2023, the unions seem to have dug up the hatchet. There is a strike at Deutsche Post because the company is resisting the 15% wage demand. The EVG rail union is insisting on 12% wage increases. For 2.5 million federal and local government employees, the services workers union ver.di has 10.5% on the wish list.

Collective bargaining is currently affecting industries that were not directly and massively impacted by the energy price shock. Last year was different. Key negotiations were in the heavily exposed chemical and metal processing industries. That may at least partly explain the more aggressive stance this year.

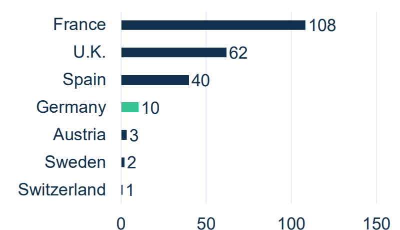
At the same time, the demands are quite understandable. Inflation is expected to reach on average 6% in 2023. Even the current high wage demands would barely offset cumulative inflation. If at all.

Gradualism instead of one-shot wage hikes

We have been spared the worst-case scenarios. Fear of physical gas shortages no longer appear in the headlines. Nevertheless, the German economy is sliding into recession. All players would

Double-digit wage demands everywhere you look

Strike days per 1000 employees per year



Source: ILO, LBBW Research. Average of available years 2010-2021.

be well advised to seek compromises that are compatible with the fragile economic situation.

At the same time, the ECB is trying to avert a price-wage spiral. Otherwise, inflation could become entrenched. And then interest rates would have to stay even higher for longer, with predictable consequences for the economy and the housing market (for more on the latter, please return to this column next Friday).

A traditional strength of the German social market economy has so far been the comparatively responsible relationship between the collective bargaining parties. As a rule, agreement was reached without massive labor disputes or large-scale industrial action. That is quite different from the reality in some other countries (see figure overleaf). Two weeks ago, I reported from London on the strike tsunami that had engulfed the UK. Such a development should be urgently avoided in Germany. A sense of proportion is now required from the collective bargaining partners.

Wages will rise. But please not everything immediately!

Unions can afford to stretch demands over several years

2023 is a special year: we are likely to witness the first recession with simultaneous full employment. That gives the unions a lot of leverage. But it also gives them the certainty that they will not have to give up this lever in the foreseeable future. That's because our aging population will cause labor shortages to worsen for years to come (see To the Point! here).

The structural imbalance on the labor market will drive up wage costs. That is almost certain. Employees can therefore afford to stretch out their claims over a longer period of time. Not everything has to be right now. The economy is still on the ropes. Please, dear collective bargaining parties, keep the good tradition of cooperation and compromise alive in 2023.

Disclaimer:

This publication is addressed exclusively at recipients in the EU, Switzerland, Liechtenstein and the United Kingdom. This report is not being distributed by LBBW to any person in the United States and LBBW does not intend to solicit any person in the United States.

LBBW is under the supervision of the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany).

This publication is based on generally available sources which we are not able to verify but which we believe to be reliable. Nevertheless, we assume no liability for the accuracy and completeness of this publication. It conveys our non-binding opinion of the market and the products at the time of the editorial deadline, irrespective of any own holdings in these products. This publication does not replace individual advice. It serves only for informational purposes and should not be seen as an offer or request for a purchase or sale. For additional, more timely in-formation on concrete investment options and for individual investment advice, please contact your investment advisor.

We retain the right to change the opinions expressed herein at any time and without prior notice. Moreover, we retain the right not to update this information or to stop such updates entirely without prior notice.

Past performance, simulations and forecasts shown or described in this publication do not constitute a reliable indicator of future performance.

The acceptance of provided research services by a securities services company can qualify as a benefit in supervisory law terms. In these cases LBBW assumes that the benefit is intended to improve the quality of the relevant service for the customer of the benefit recipient.

Additional Disclaimer for recipients in the United Kingdom: Authorised and regulated by the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany). Deemed authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website.