News release

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Pages	2 pages

Eurozone wages broadly flat despite declining unemployment rates

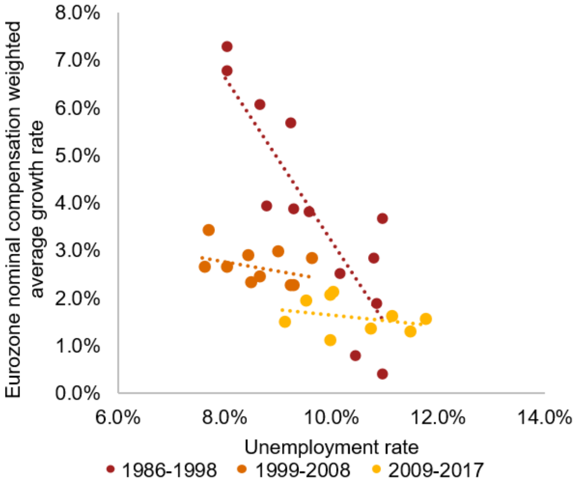
- PwC analysis suggests that Eurozone wages are becoming more unresponsive to lower unemployment rates – similar to the US and the UK
- Analysis also finds European Central Bank (ECB) and new EU member states have helped to contribute to this trend

The labour markets in advanced economies have (almost) never been better. But despite tightening labour markets, wages have not yet picked up as economic theory would predict.

But what has been putting this downward pressure on wages? And more importantly, will wages pick up?

In the latest Global Economy Watch, PwC economists turn their attention to Eurozone labour markets, by modelling the relationship between unemployment and wages. They found that—similar to what has been observed in the US and the UK—this relationship has become flatter and weaker (see Figure 1).

Fig 1: Phillips curve has been flattening over the past 20 years



Sources: PwC analysis, Eurostat
*Due to the unavailability of historic data we used nominal compensation which includes wages, salaries in cash and in kind and employer's social security contributions.

Barret Kupelian, senior economist at PwC, comments:

> "A number of factors could explain this trend, some of which have been common across most advanced economies. These include the gradual decline of unionisation, which reduces the bargaining power of labour, the digitalisation of work and the gradual rise of the gig economy, as well as other changes in the structure of the economy."

Focusing on the Eurozone, PwC economists found that there are more specific factors which explain why the link between unemployment and wages has weakened, but also has shifted. These include:

- The creation of the European Central Bank, which adjusted downwards the inflation expectations of workers in Southern Eurozone economies, which typically used to experience high rates of inflation
- Admission of Eastern European economies, some with lower income levels, which made labour supply more elastic over time.

What does this mean for the future? Barret Kupelian, senior economist at PwC, comments:

> "Assuming no other change to structural factors, future wage increases in the Eurozone are likely to be dependent on productivity increases rather than slack in the labour market. This places a greater onus on governments and businesses to boost the productivity level of their workforce by investing in hard infrastructure such as roads, airports and other utilities, and soft infrastructure including formal education, vocational and other training. Productivity improvements are a prerequisite for continued income growth in the future."

Ends

To download a copy of the Global Economy Watch, visit www.pwc.com/gew

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