

# Wage and Inflation in Germany

Panel discussion

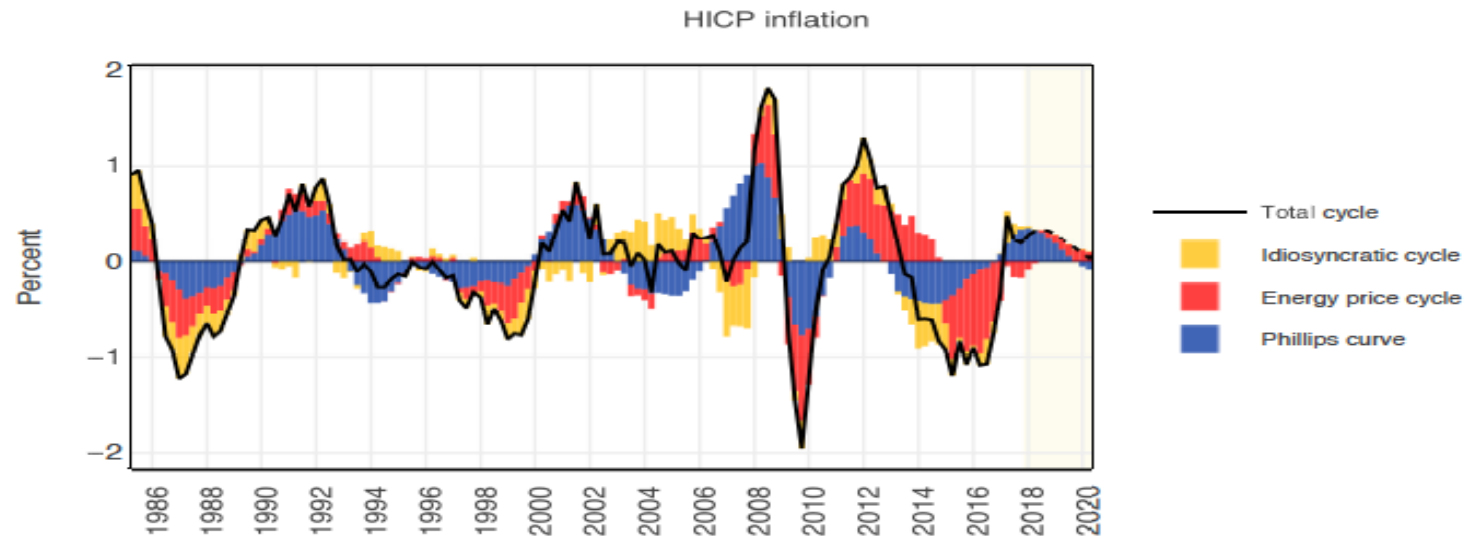
Lucrezia Reichlin, London Business School

IMF and Deutsche Bundesbank conference

Frankfurt, January 18<sup>th</sup> 2017

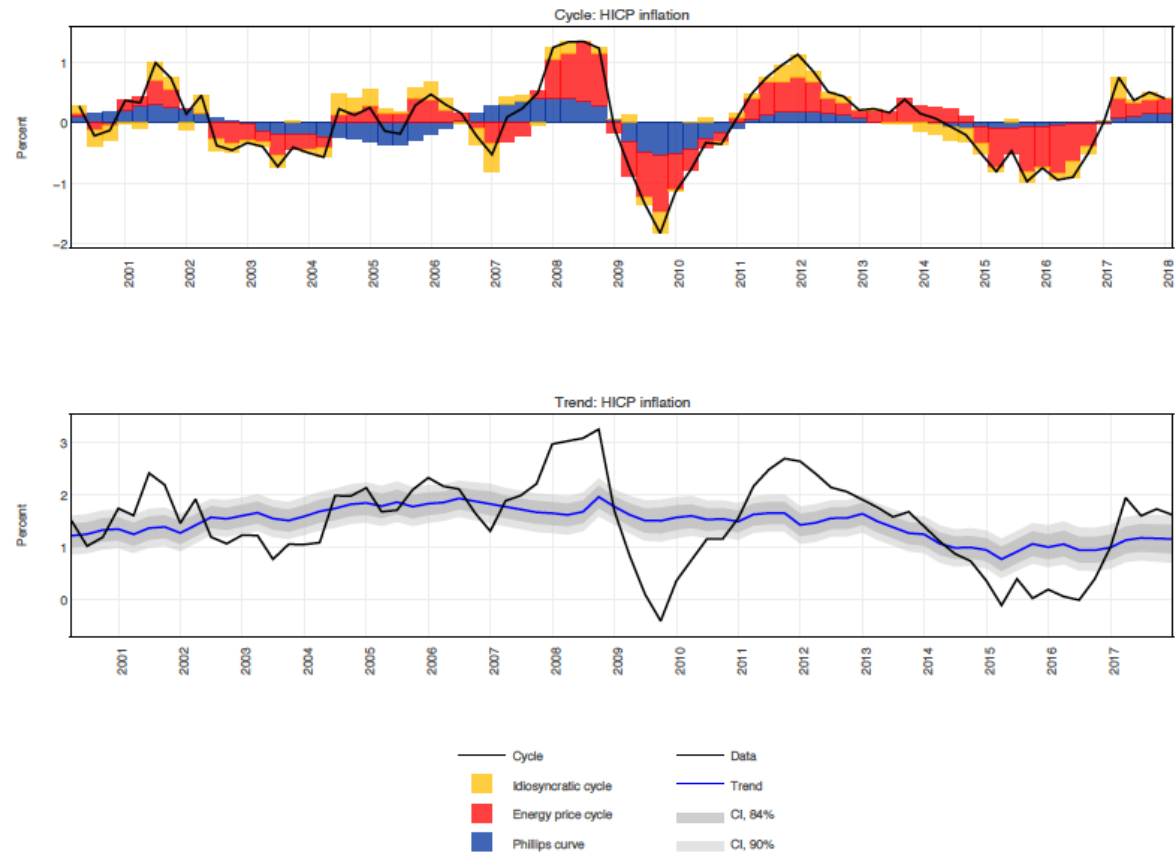
# The Phillips curve is not dead – euro area estimates

## EA - Historical decomposition of the inflation cycle

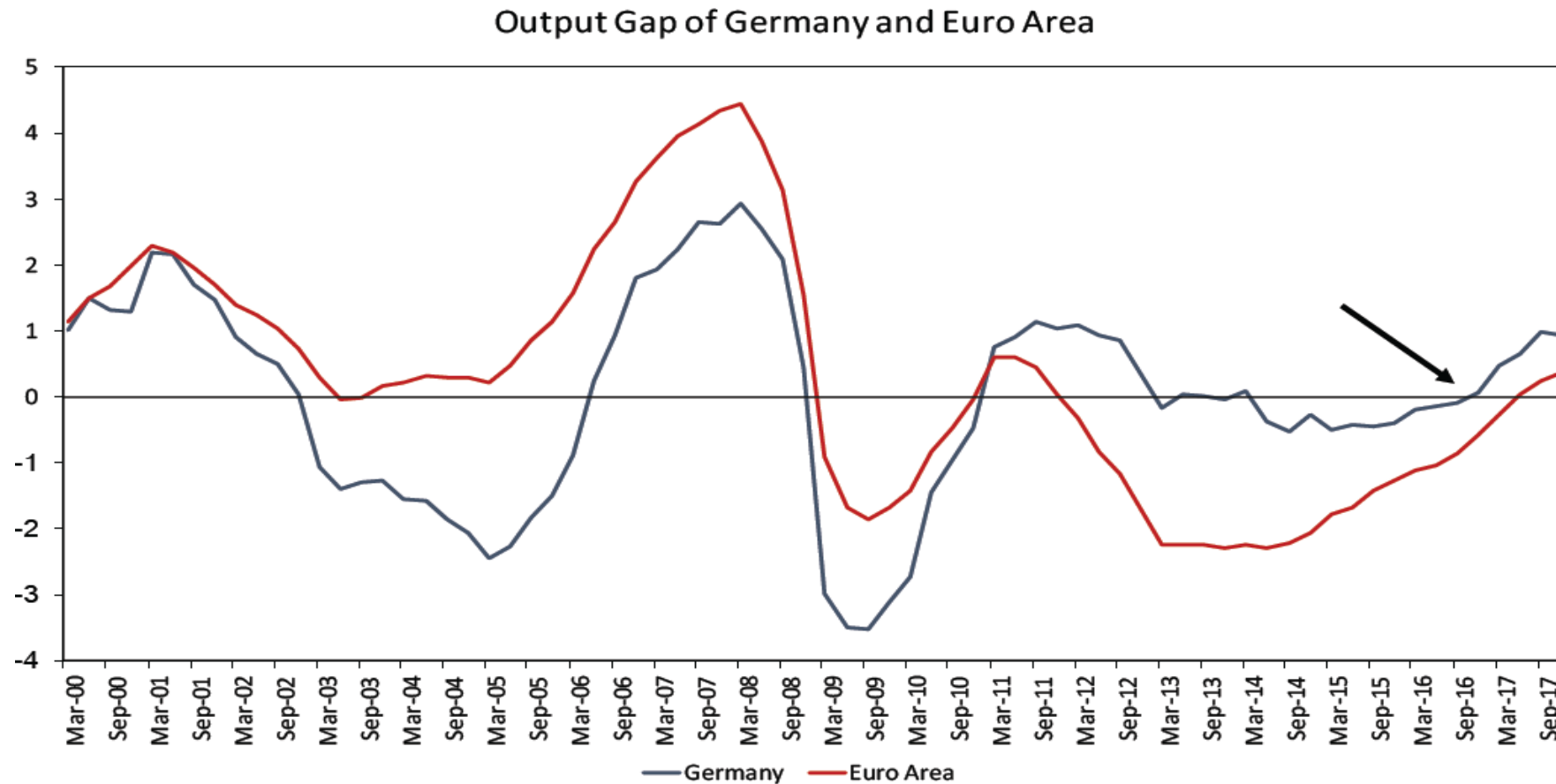


Note: Quarterly year-on-year HICP cycle. Forecast period is indicated with a shaded area, and goes from Q4-2017 to Q1-2020. Source: Authors' calculations, AWM, ECB.

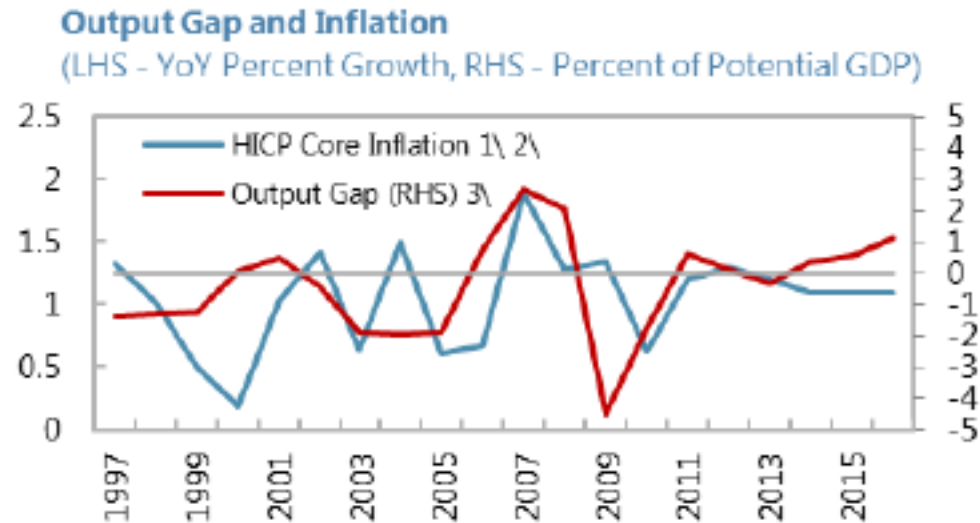
Qualitatively similar results for Germany, but smaller contribution of the Phillips curve because of a smaller output gap



Output gap estimates: little output volatility in Germany, GDP close to trend, above it since 2016 only



# Slightly different view from IMF calculation

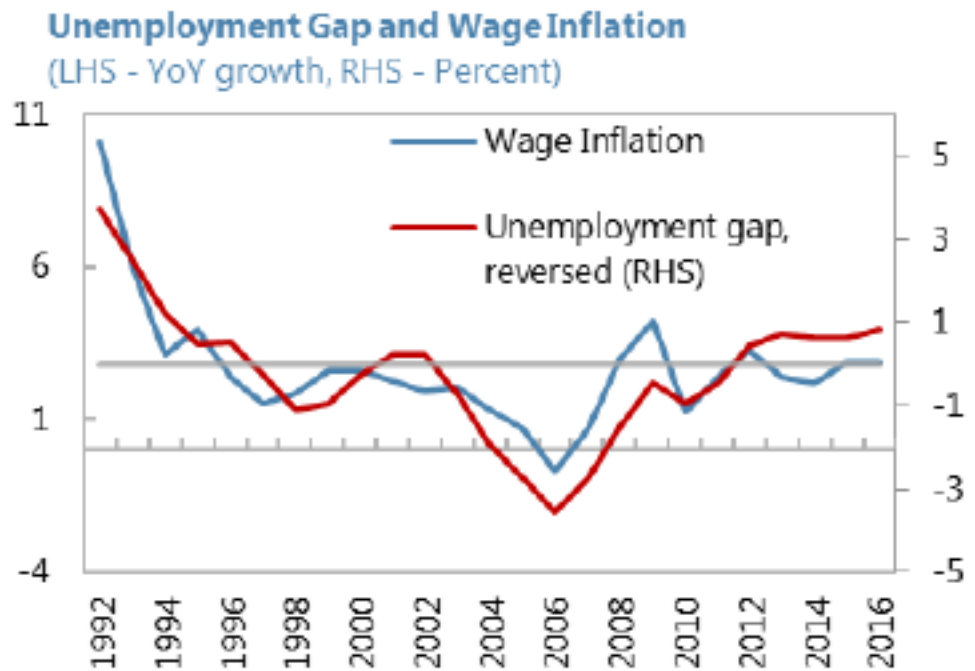


Source: OECD, WEO and IMF staff calculations.

1\ Total excl. energy and food.

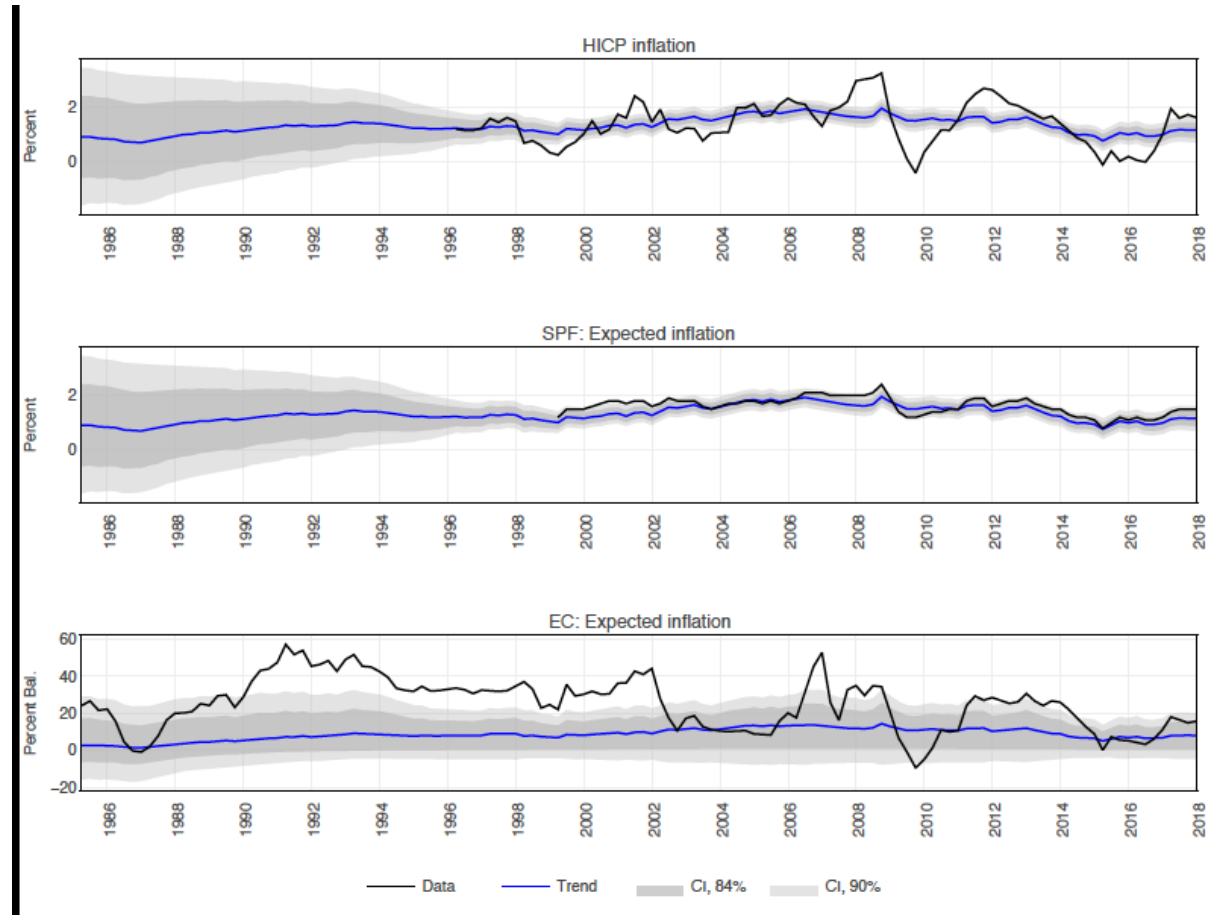
2\ Core inflation would have been considerably lower in 2007 without the increase of the VAT-rate.

3\ OECD Output Gap.



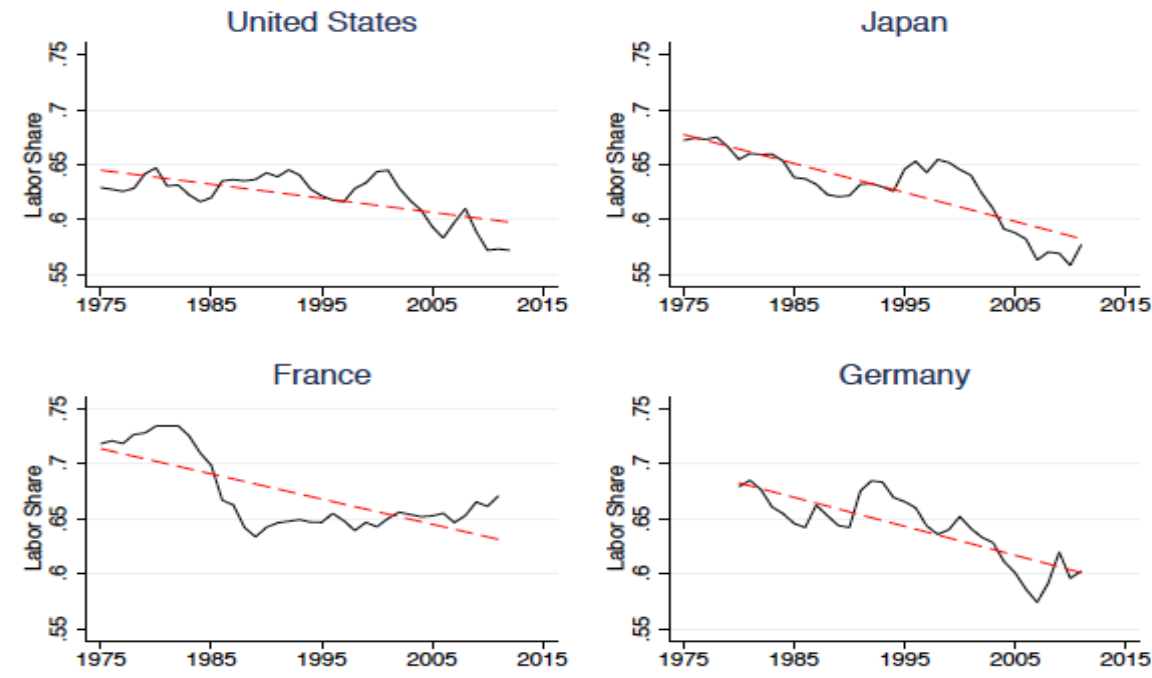
Source: WEO and IMF staff calculations.

Trend inflation is the dominant component and it is very stable in Germany



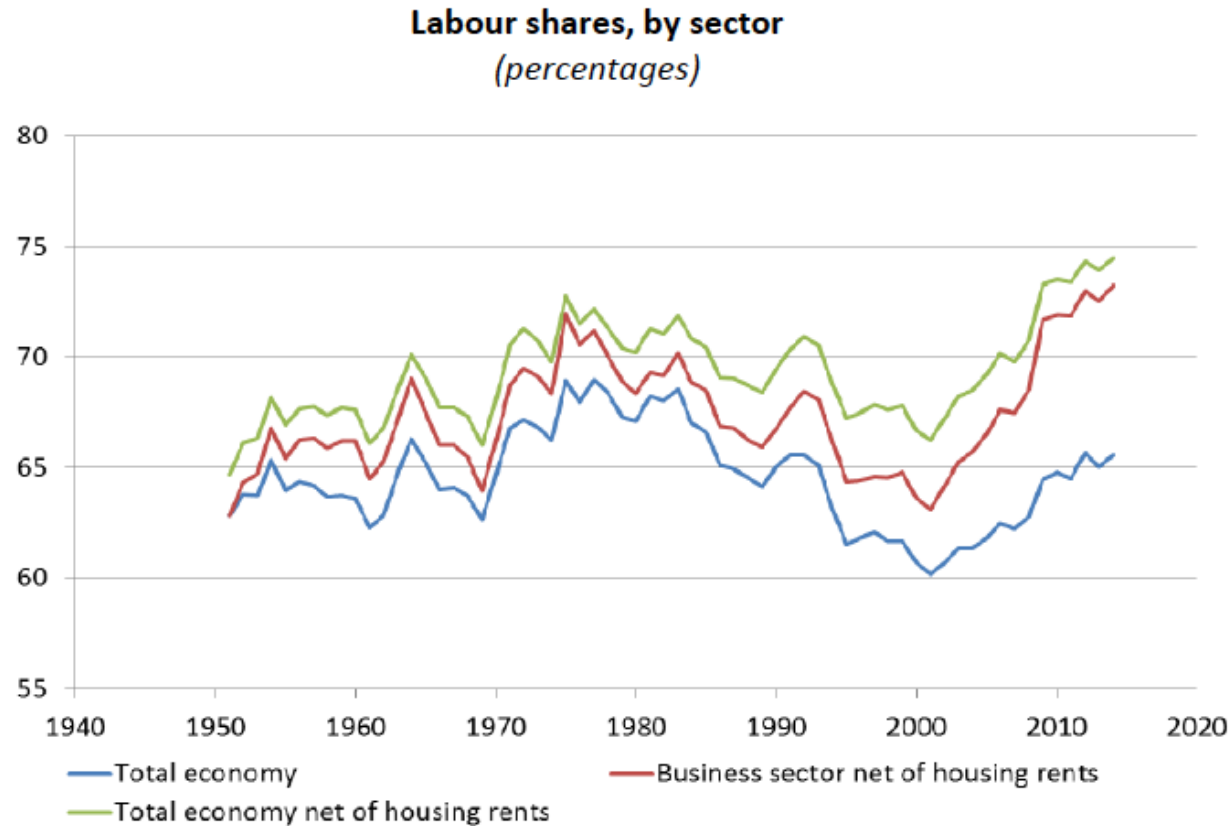
# Labor shares have been trending down historically

## Labor Shares in Advanced Economies



Labor share in Italy: contrary to Germany have been increasing since 2000 – causes: low profitability, declining return to capital

**Figure 6**

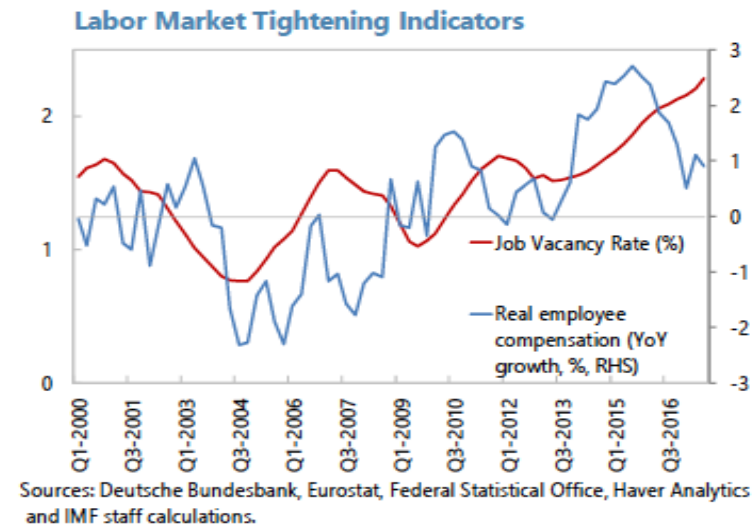
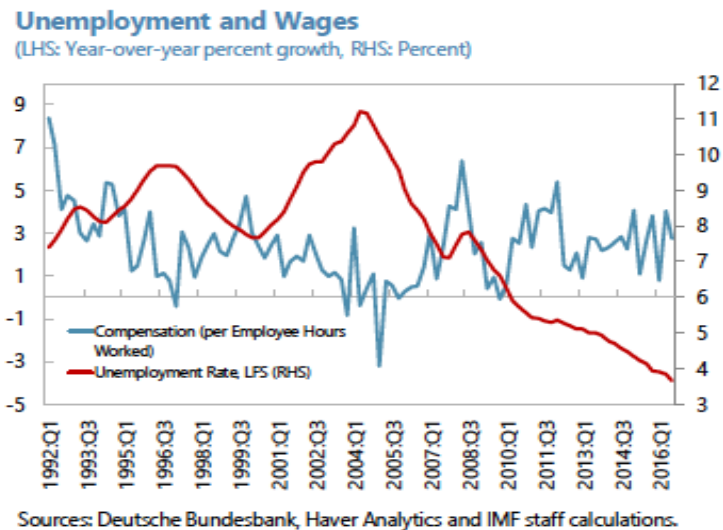




Wages are picking up, consistently with my estimates of the Phillips curve/output gap –  
Unemployment not the right measure of slack

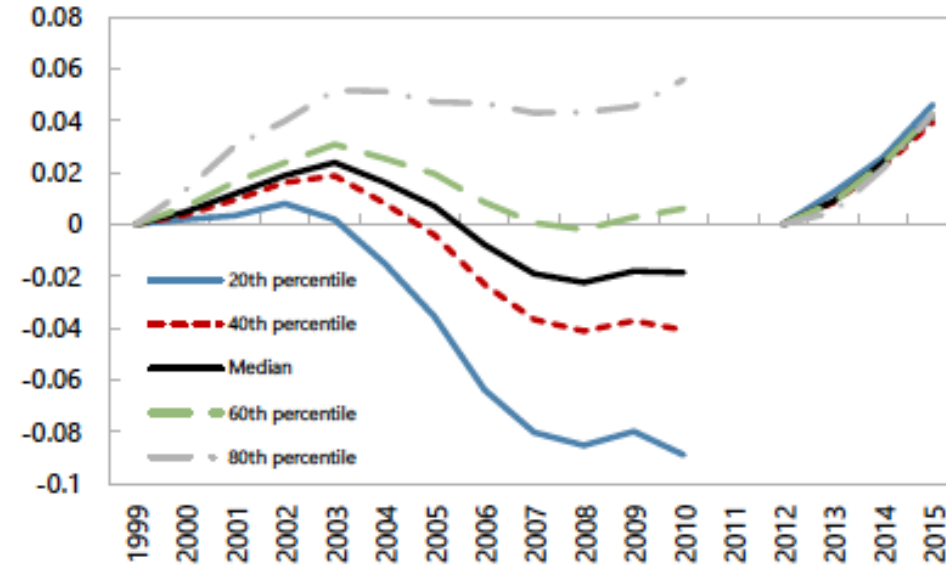
## Unemployment, vacancies and wages

- The unemployment rate has more than halved since 2005, but wage growth has remained stable around 2.5 percent.
- Real wages have been picking up since the crisis, in line with the gradual tightening of the labor market; rising vacancy rates suggest further room for wages to grow.



Since 2012 wage growth affects all sectors – aggregate demand story

**Cumulative Changes in Real Wage, 1999-2010 and 2012-2015**  
(2010 euros, full time employees)



Sources: Federal Employment Agency