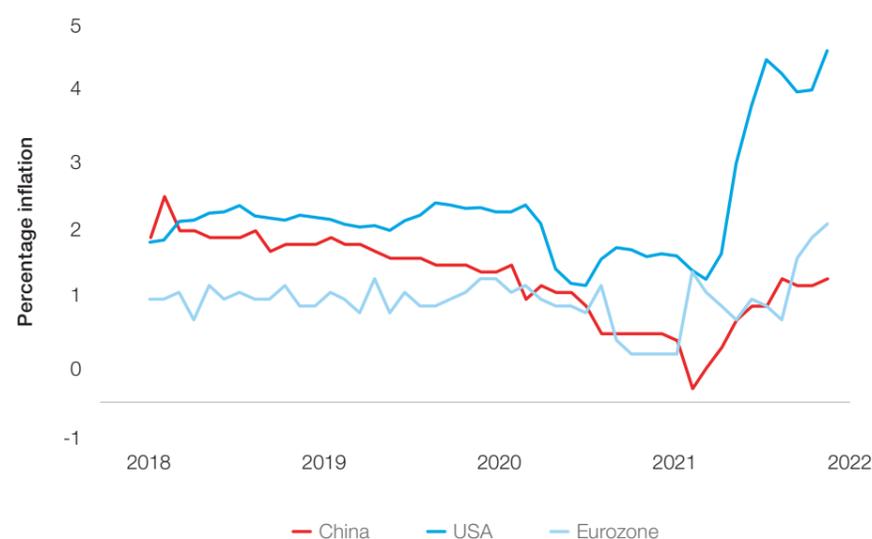


A topic much in the news of late is inflation. Indeed, its recent rise is dominating market news, and its effects are being felt globally. This edition of the Economic Brief will see us look into this striking rise in inflation and what patterns might be taking shape. We will also look into how inflation and pay rises interact, as well as how they might affect future employee compensation negotiations.

The table opposite shows average increases in salaries negotiated in the EU in recent years. As we can see, increases for the eurozone average at 1.9% in the period from 2017 to 2020. However, the figures for quarters 1 and 2 in 2021 show levels much lower than this. In light of the rise in inflation, the sluggish growth in salaries may well leave employees facing real decreases in their earnings. Though these trends combine to create adverse circumstances for employees, many workers are in fact willing to sacrifice some benefits to retain one in particular: remote working. For example, numerous studies in the US have highlighted the desire of employees to continue working from home to the extent that they would be willing accept a reduction in pay or lose other benefits such as health coverage in order to retain this new advantage.

## Consumer prices: universal acceleration!

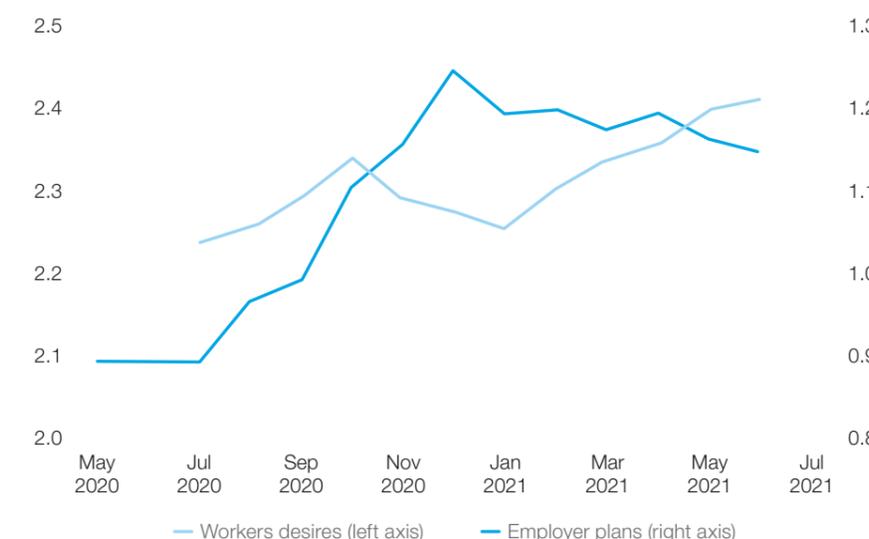


Across the world, consumers appear to be feeling the pinch in their wallets as general prices increase. This effect becomes evident when we look at the development of the core consumer price index. In the graph opposite, we can easily identify the universal acceleration in 2021 of this core index (excluding energy and food products) across the eurozone, the USA and China.

However, it is difficult to confirm whether this trend will continue in the long term, much less whether salary increases will be able to match such acceleration...

Sources: Accuracy & Bloomberg

## Workers and employers increasingly embrace working from home after the pandemic ends



The graph opposite shows the result of a study by the University of Chicago, which highlights both employee and employer intentions for working from home after the end of the pandemic. It is clear to see that as the pandemic progressed and employees and employers better appreciated the advantages of working from home, their intentions to capitalise on it have increased. This will certainly become a factor taken into consideration in many a salary negotiation in the future.

Source: University of Chicago

## % change in salaries in EU yoy

	Salaries negotiated in EU (% yoy)				
	17-18	2019	2020	1Q21	2Q21
	1.8	2.2	1.8	1.4	1.7
	2.4	2.9	2.2	1.4	2.3
	1.5	1.8	1.8	2.0	1.4
	1.0	1.0	0.6	0.6	0.5
	1.5	2.0	1.9	1.5	1.5
	1.7	2.5	2.9	2.2	2.2
	2.1	3.0	2.3	1.7	1.7

Sources: Accuracy, ECB, national sources, JPM

To conclude, the current rise in inflation is precipitous and its effects widespread. It is difficult to determine whether this upward trend will continue into the long term, and if so, how companies will react when it comes time to renegotiate salaries. Nevertheless, demand for more flexible working conditions will certainly be a tool used in such negotiations in the future.