WEEKLY UPDATE

Resilient labour markets are making life harder for central banks

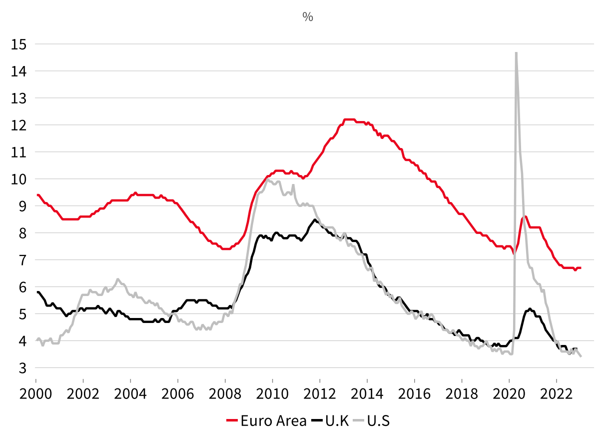
One of the striking features of the post-Covid economy is the resilience of labour markets in most developed economies. In part, this can be explained by the rapid recovery once lockdowns were lifted, but other structural factors are also helping sustain jobs markets in the face of monetary policy tightening and exogenous shocks. Monetary policy-makers are closely monitoring this resilience as, in the absence of productivity gains, it feeds into inflation.

Labour markets in the major developed economies look to be in rude health, both in terms of job numbers and salaries. Employment in these economies has returned to, and in some cases (including France), overtaken pre-Covid levels faster than in other recessionary episodes. In the euro area, unemployment had fallen to 6.6% by end-2022, the lowest since the launch of the single currency, while in the United States and United Kingdom it is at its lowest since the 2000s.In this tight employment market, salaries are also growing faster than they did in the last decade, with bigger rises for the least-qualified jobs.

Such a healthy labour market is at first sight surprising, given the uncertain economic environment. Despite the shock of the Ukraine invasion, more than years' worth of monetary policy tightening and slowing domestic demand, companies are still keen to hire people. Several factors explain this resilient labour market. First, while employment may be back to pre-Covid levels, the active population is smaller than it was before the crisis, particularly in the United States and the United Kingdom. This reflects the number of deaths linked to the pandemic, the number of workers who retired early and the fall in immigration. Secondly, some companies are putting in place retention plans given the difficulty of hiring/rehiring in the aftermath of the Covid crisis. Finally, the capacity that some firms had to pass the higher input prices to higher selling prices allowed to preserve margins but also a dynamic level of employment.

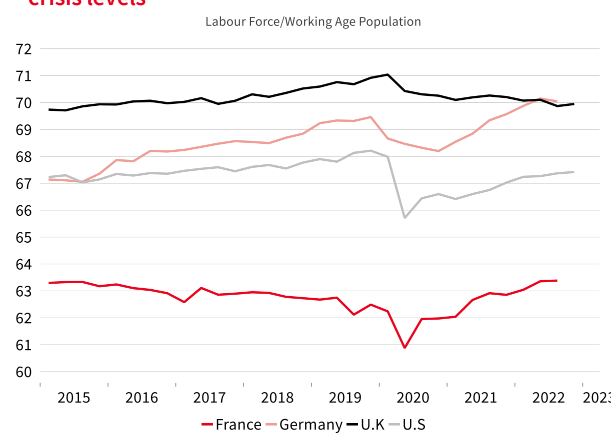
Overall, while the healthy jobs market has helped the economy ride out recent shocks, it has also fed inflationary pressures. The upward push on wages should maintain pressure on prices, if companies keep their margins constant and in the absence of productivity gains. Which is why central banks and money markets are keeping a close eye on what happens to the employment market. The more evident the signs of overheating, the likelier it is that central banks will keep financing conditions tight.

Unemployment is at an all-time low for many economies



Sources: SGPB, Macrobond, Eurostat, ONS, BLS 01/2023

Activity rates in some economies have not returned to pre-crisis levels



Sources: SGPB, Macrobond, OECD 2022 Q3

OUR MACRO COMMENTS

Events of the week

According to a first estimate from INSEE, inflation rose in February. The consumer price index rose to 6.2% year-on-year, compared to 6% in January, mainly due to higher prices for food and services. On the other hand, household consumption of goods exceeded expectations, increasing by 1.5% over one month, after a decline of 1.6% in December.

Winsdor Framework. An agreement has been reached between the European Union and Great Britain regarding Northern Ireland. Amongst the main points, Northern Ireland would remain in the European customs union, but customs controls will be greatly reduced for goods coming from Great Britain and destined to remain in Northern Ireland. In case of dispute, the European Court of Justice will have the final say. The agreement must be ratified by parliaments

Figures of the week

	Actual		Forecast	Previous
• Inflation Rate (YoY, February)	8.5%	↓	8.2%	8.6%
• Core Inflation Rate (YoY, February)	5.6%	↑	5.3%	5.3%
• Durable Goods Orders (MoM, January)	-4.5%	↓	-3.5%	5.1%
• ISM Manufacturing PMI (February)	47.7	↑	48	47.4
• Inflation Rate (YoY, February)	8.7%	→	8.5%	8.7%
• Inflation Rate (YoY, February)	6.2%	↑	6.1%	6%
• Industrial Production (MoM, January)	-1.9%	↓	-0.2%	1.5%
• NBS Manufacturing PMI (February)	52.6	↑	50.5	50.1

Sources : Macrobond, 3 March 2023

The week ahead

Day	Event
Monday	
	Retail Sales
Wednesday	
	Retail Sales
	ADP National Employment Report
Thursday	
	Inflation Rate
Friday	
	BoJ Interest Rate Decision
	GDP
	Unemployment Rate

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	2,40	2,40	1,39	1,91	-0,58
USD SOFR O/N	4,55	4,55	3,82	4,30	0,05
JPY TONAR O/N	-0,01	-0,01	-0,08	-0,02	-0,01
GBP SONIA O/N	3,93	3,93	2,93	3,43	0,45
CHF O/N	0,80	0,80	0,80	0,80	-0,73

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	84,39	5,1%	-2,5%	-1,8%	-26,4%
Or, USD/oz	1 837	0,6%	3,9%	0,6%	-4,7%
Copper, USD/metric ton	9 080	-0,6%	10,7%	8,1%	-11,2%
Platinium, USD/oz	965	1,9%	-4,5%	-9,4%	-9,3%
Palladium, USD/oz	1 424	-5,4%	-24,3%	-20,4%	-46,3%
Silver, USD/oz	21,00	-4,0%	-2,6%	-12,3%	-16,3%

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3,18	2,99	2,41	2,98	0,47
10Y Bund	2,71	2,51	1,94	2,44	0,01
10Y BTP	4,56	4,33	3,87	4,55	1,55
10Y JGB	0,50	0,50	0,25	0,41	0,13
10Y Bonos	3,74	3,49	2,94	3,51	0,99
10Y Swiss	1,46	1,44	1,06	1,57	0,08
10Y Gilt	3,84	3,71	3,17	3,66	1,27
10Y USTnote	4,01	3,93	3,68	3,88	1,86

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,07	0,4%	3,0%	0,0%	-3,8%
EUR/CHF	1,00	1,4%	2,1%	1,6%	-1,9%
USD/GBP	0,83	0,5%	-0,8%	0,3%	10,9%
USD/JPY	136,10	1,1%	-2,4%	4,1%	17,8%
USD/BRL	5,19	0,5%	-1,3%	-2,7%	0,6%
USD/CNY	6,87	-0,4%	-3,1%	-0,5%	8,6%
USD/RUB	75,10	-0,3%	23,3%	2,9%	-28,1%

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,56	3,34	2,77	3,12	0,81
EUR Corporate Baa	4,67	4,43	4,22	4,65	1,35
GBP Corporate Baa	4,71	4,54	4,29	4,59	2,07
USD Corporate Aaa	4,79	4,71	4,43	4,62	2,80
USD Corporate Baa	5,86	5,74	5,60	5,70	3,46
USD EM aggregate	7,59	7,59	7,59	7,52	5,81

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 067	-0,7%	-1,7%	0,6%	-5,2%
Eurostoxx 50	4 216	-0,6%	6,3%	9,3%	10,3%
Dax 40	15 305	-0,6%	6,3%	8,8%	9,3%
CAC 40	7 234	-0,9%	7,4%	9,7%	11,3%
FTSE 100	7 915	-0,2%	4,5%	6,2%	6,5%
SMI	11 056	-2,2%	-0,6%	3,0%	-6,9%
SP500	3 951	-1,0%	-3,2%	2,9%	-9,9%
TOPIX	1 998	1,1%	0,6%	5,6%	7,4%
iBovespa	104 385	-2,6%	-7,2%	-1,9%	-9,4%
Hang Seng	20 620	1,0%	10,9%	4,2%	-7,7%
Sensex 30	59 411	-0,6%	-5,8%	-2,9%	7,1%
CSI 300	4 127	0,5%	7,1%	6,6%	-9,9%

Source: Bloomberg, on 2 March 2023.
-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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