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# MAKING SENSE OF *THIS* WORLD

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*R&R Weekly Column*
*By Brunello Rosa*


## Labour Strikes Have Returned, Threatening A New Wage-Price Spiral

This week will be the second of three consecutive weeks of industrial actions involving university personnel over the issues of pension cuts, salaries, and working conditions. The trade union Unison explained that the offer of a 1.5% pay rise (which would be significantly below the current inflation rate) is not enough to compensate for the increased workload of teachers and university personnel that occurred during the pandemic. Meanwhile, British Airbus workers have also decided to go on strike over "unacceptably low" pay offers they received from the company. These are only two recent examples of industrial action (aka strikes) undertaken by workers and trade unions in several public and private sector organisations.

This phenomenon is not limited to the UK. In the US, the month of October was characterised by several industrial actions within large corporations (such as Kellogg), which led to the nickname "striketober". October was the peak of an increasing chain of strikes that took place throughout 2021. This is set to continue in 2022, when a number of large contracts will be up for renewal in several sectors.

In absolute terms, the number of actions and the number of cumulative working days lost are still tiny compared to the hot decades of the 1970s and 1980s. Just to give an example: in the UK, in January 1979 there were 3 million working days lost to strikes. In January 2018 there were only 9,000 working days lost to strikes.

Still, the pandemic has certainly marked a turning point. The first phenomenon to emerge was that of the so-called Great Resignation, when thousands of people around the globe voluntarily left their jobs in search of better opportunities, higher salaries, more decent working conditions, and perhaps also in protest of what was perceived to be the worker "exploitation" their companies engaged in during the pandemic (for example, when working from home became the excuse for companies pressuring their employees into seemingly endless working days and weeks).

After that, labour shortages and sharp increases in living costs have done the rest: workers who kept their jobs are fighting for better working conditions in terms of working hours and pay, as inflation is clearly eroding the real value of their salaries.

In more general terms, workers are fighting for a more equal distribution of income between labour and capital, following decades in which the labour share of income in the economy has diminished in favour of rents, interest and profits. Trade unions, the power and representativeness of which collapsed with the rise of neo-liberal economics and supply-side policies in the 1980s and 1990s, are regaining power.

*What could be the risks of these shifts, going forward*? While a more equal distribution between labour and capital is certainly desirable, in this period of high inflation that is taking place in part due to supply bottlenecks, further disruptions in value chains due to industrial actions may cause an additional increase in prices, making even this short-term inflation more persistent than it is already proving to be.

Furthermore, if wage increases are asked to compensate for higher costs of living, the infamous wage-price spiral that characterised the "dark ages" (in terms of industrial relations) of the 1970s and 1980s may return. Especially if mechanisms of automatic indexation of wages and pensions were to return (which hopefully they will not). A new wage-price spiral could lead to a sustained increase in unit labour costs (this occurs when wages increase faster than productivity), which is the engine of domestically-generated inflation – the type of inflation that is more difficult to eradicate.

In order to avoid these risks, moderation and common sense need to be exerted by all parties involved.

***Our Recent Publications***

- Working Paper Series - Kazakhstan: The Power Struggle Behind the Unrest, *by Marco Lucchin, 18 February 2022*
- Flash Review: The Riksbank Narrowly Keeps Its Policy Stance Unchanged in February, *by Brunello Rosa and Nato Balavaze, 10 February 2022*
- Flash Review: ECB Signals A Policy Shift To Occur In March, *by Brunello Rosa, 3 February 2022*
- **GEOPOLITICAL CORNER:** A Political Risk Guide to the Crisis in Ukraine, *by John C. Hulsman, 8 February 2022*

## Looking Ahead

### The Week Ahead: PMIs To Accelerate In The US and EZ; Policy Rate To Increase In New Zealand

***In the US,*** *i)* February's manufacturing PMI and services PMI are expected to accelerate to 56 (*p:* 55.5) and 53 (*p:* 51.2) respectively; *ii)* the US GDP growth rate (second estimate) for the last quarter of 2021 is expected to sharply increase to 7% q-o-q (*p:* 2.3%).

***In the EZ,*** *i)* January's final reading of the inflation rate is expected to increase to 5.1% y-o-y (*p:* 5%); *ii)* in February, manufacturing PMI is expected to remain unchanged (*p:* 58.7), while services PMI is expected to increase to 52 (*p:* 51.1). As a result, the Markit Composite PMI is seen rising to 52.7 (*p:* 52.3).

***In New Zealand***, the RBNZ is expected to increase its policy rate from 0.75% to 1%.

### The Quarter Ahead: Diplomatic Talks on Ukrainian Crisis; UK Enhances Biosecurity; Iranian Demands To US Over The Nuclear Deal

***Involved countries agree to hold diplomatic talks over the Ukrainian crisis.*** President Putin is keen to ease tensions and has withdrawn some of the Russian troops but still maintains pressure on the West. NATO has not perceived signs of de-escalation but is unanimous about engaging in diplomacy rather than confronting Russia in an armed conflict. Russia's lower house of parliament asked President Putin to consider signing a resolution to recognize two Moscow-backed separatist states in eastern Ukraine, but there has been no indication by the Kremlin of its intention to proceed.

***Western and Eastern countries are looking at two different sides of the national security coin to counter Covid-19.*** The UK – with its "herd immunity" theory - is revamping its approach to biological security, a key element of the British government's integrated review of national security, defense and foreign policy. By contrast, China – with its zero-Covid policy – is planning to raise Covid restrictions to "mobilize all possible forces and resources" to protect citizens' health and maintain social stability.

***Iran is demanding for US legal assurances on commitment to the nuclear deal.*** Talks in Vienna led to a critical juncture on the nuclear accord. After Trump's unilateral withdrawal from the JCPAO in 2016, Iran cannot trust the words of the American administration, and demands a "political statement" that President Putin cannot provide unless Iran agrees to reverse the aggressive advances of the past three years. Meanwhile, time to revive the deal is running out.

***The French political arena has been invaded by candidates racing for presidency.*** In April, France will vote over two rounds on whether to elect a new president or give President Macron a second five-year term. According to recent polls, Macron is likely to be one of the candidates in the run-off phase, but Republican candidate Pécresse is advancing in the polls.

## Last Week's Review

### Real Economy: EZ Economy Expanded; Inflation Rose In The UK And In China

***In the EZ,*** Q4 GDP expanded by 0.3% q-o-q, slowing sharply from Q3's 2.3% rise, as the Omicron Covid-19 variant spread across the continent. Conversely Q4 GDP accelerated by 4.6% y-o-y from 3.9% in Q3. Industrial production in December rose by 1.6% y-o-y, rebounding from the previous month's 1.4% y-o-y fall.

***In the UK,*** January inflation ended higher than expected at 5.5% y-o-y (*p:* 5.4%) and core inflation rose to 4.4% y-o-y (*p:* 4.2%), while monthly inflation fell -0.1% (*p:* 0.5%). The unemployment rate in December stayed at 4.1% (*p:*4.1%), in line with market expectations.

***In China,*** in January annual inflation fell to 0.9% y-o-y (p: 1.5%),as the cost of food dropped the most in last four months. Monthly inflation in January increased by 0.4% (*p:* -0.3%).

### Financial Markets: Wobbly Global Equities; Sharp Fall Of The US And The German 10Y Bonds; Highest Gold Price In Eight Months

***Market drivers:*** Last week's main market movers were: *i)* tensions on the Russian-Ukrainian border; *ii)* possibility of additional oil exports from Iran to offset supply disruptions stemming from the Ukrainian crisis ; *iii)* higher inflation rates.

***Global equities*** decreased w-o-w (MSCI ACWI, -1.69%, to 703). In the *US*, the S&P 500 ended lower (-1.58% w-o-w to 4,349). In the *EZ*, shares fell (Eurostoxx 50, -1.95% w-o-w, to 4,074). In *EMs*, equities fell (MSCI EMs, -0.70%, to 1,232), while Chinese stock prices rose (Shanghai Comp., +0.80% w-o-w to 3,491). *Volatility* slightly lost (VIX S&P 500, -0.03 pts to 27.75, *52w range.:* 14.1-37.51).

***Fixed Income:*** US 10-year bond yield decreased (-6bps, to 1.93%), as well as Germany's 10-year bond yield (-6bp, to 0.21%). The EMTX 7-10 RT was up to 270 (+ 1.7pts).

***FX:*** w-o-w, the US Dollar Index fell (DXY, -0.35%, to 96.02; EUR/USD gained +0.1%, to 1.1316). In *EMs*, currencies strengthened against the USD (MSCI EM Currency Index, +0,4% w-o-w, to 1,750).

***Commodities:*** Oil prices fell (Brent, -1 USD/b w-o-w, to 93.5 USD/b) in spite of geopolitical tensions, as investors hoped for a return of Iranian oil to the market. Gold futures prices climbed in 8 months (+32 cents w-o-w, to 1,901 USD/Oz), given geopolitical tensions.

@RosaRoubini    Rosa & Roubini    Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED

***Giovanna Alberta Stefani*** *contributed to this Viewsletter.*    *The picture in the front page comes from this website*

## Abbreviations, Acronyms and Definitions

| | | | |
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| *a* | *Actual* | *LN* | *Northern League, Italy* |
| *AKP* | *Justice and Development Party, Turkey* | *M5S* | *Five Star Movement, Italy* |
| *ann.* | *annualized* | *m-o-m* | *Month-on-month* |
| *ARS* | *Argentinian Peso* | *mb* | *Million barrels* |
| *avg.* | *Average* | *mb/d* | *Million barrels per day* |
| *bn* | *Billion* | *MENA* | *Middle East and North Africa* |
| *BoC* | *Bank of Canada* | *MHP* | *Nationalist Movement Party, Turkey* |
| *BoE* | *Bank of England* | *mn* | *Million* |
| *BoJ* | *Bank of Japan* | *MPC* | *Monetary Policy Committee* |
| *bpd* | *Barrels per day* | *NAFTA* | *North-American Free Trade Agreement* |
| *bps* | *Basis points* | *NATO* | *North Atlantic Treaty Organization* |
| *BS* | *Balance sheet* | *OECD* | *Organization for Economic Cooperation and Development* |
| *c* | *Consensus* | *Opec* | *Organization of Petroleum Exporting Countries* |
| *C/A* | *Current account* | *p* | *Previous* |
| *CB* | *Central bank* | *P2P* | *Peer-to-peer* |
| *CBB* | *Central Bank of Bahrain* | *PBoC* | *People's Bank of China* |
| *CBK* | *Central Bank of Kuwait* | *PCE* | *Personal Consumption Expenditures* |
| *CBT* | *Central Bank of Turkey* | *PE* | *Price to earnings ratio* |
| *CDU* | *Christian Democratic Union, Germany* | *PM* | *Prime minister* |
| *CNY* | *Chinese Yuan* | *PMI* | *Purchasing managers' index* |
| *CPI* | *Consumer Price Index* | *pps* | *Percentage points* |
| *DJIA* | *Dow Jones Industrial Average Index* | *pw* | *Previous week* |
| *DJEM* | *Dow Jones Emerging Markets Index* | *QCB* | *Qatar Central Bank* |
| *d-o-d* | *Day-on-day* | *QAR* | *Qatari Riyal* |
| *DXY* | *US Dollar Index* | *QE* | *Quantitative easing* |
| *EC* | *European Commission* | *q-o-q* | *Quarter-on-quarter* |
| *ECB* | *European Central Bank* | *RE* | *Real estate* |
| *ECJ* | *European Court of Justice* | *RBA* | *Reserve Bank of Australia* |
| *EIA* | *US Energy Information Agency* | *RRR* | *Reserve Requirement Ratio* |
| *EM* | *Emerging Markets* | *RUB* | *Russian Rouble* |
| *EP* | *European Parliament* | *SWF* | *Sovereign Wealth Fund* |
| *EPS* | *Earnings per share* | *tn* | *Trillion* |
| *EU* | *European Union* | *TRY* | *Turkish Lira* |
| *EUR* | *Euro* | *UAE* | *United Arab Emirates* |
| *EZ* | *Eurozone* | *UK* | *United Kingdom* |
| *Fed* | *US Federal Reserve* | *US* | *United States* |
| *FOMC* | *US Federal Open Market Committee* | *USD* | *United States Dollar* |
| *FRB* | *US Federal Reserve Board* | *USD/b* | *USD per barrel* |
| *FX* | *Foreign exchange* | *UST* | *US Treasury bills/bonds* |
| *FY* | *Fiscal Year* | *VAT* | *Value added tax* |
| *GCC* | *Gulf Cooperation Council* | *VIX* | *Chicago Board Options Exchange Volatility Index* |
| *GBP* | *British pound* | *WTI* | *West Texas Intermediate* |
| *GDP* | *Gross domestic product* | *WTO* | *World Trade Organisation* |
| *IMF* | *International Monetary Fund* | *w* | *Week* |
| *INR* | *Indian Rupee* | *w-o-w* | *Week-on-week* |
| *IPO* | *Initial public offering* | *y* | *Year* |
| *IRR* | *Iranian Rial* | *y-o-y* | *Year-on-year* |
| *JPY* | *Japanese yen* | *y-t-d* | *Year-to-date* |
| *k* | thousand | *ZAR* | *South African Rand* |
| *KSA* | *Kingdom of Saudi Arabia* | *2y; 10y* | *2-year; 10-year* |

Rosa & Roubini ASSOCIATES

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