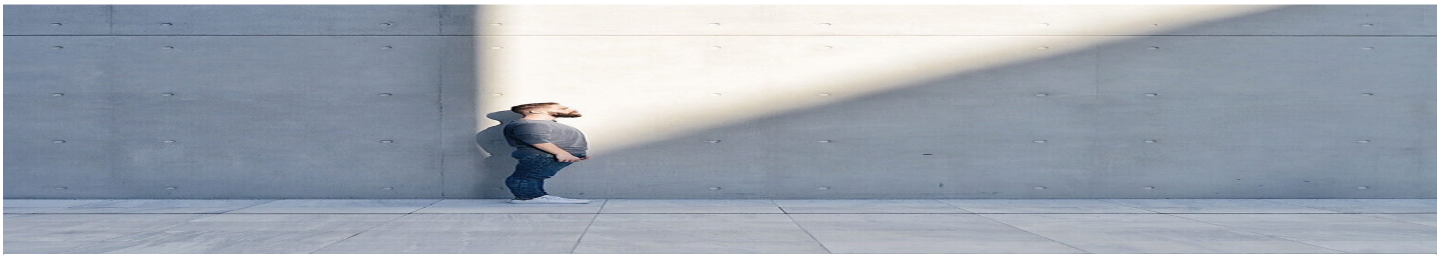

The burden of inflation isn't the same in the US and Europe

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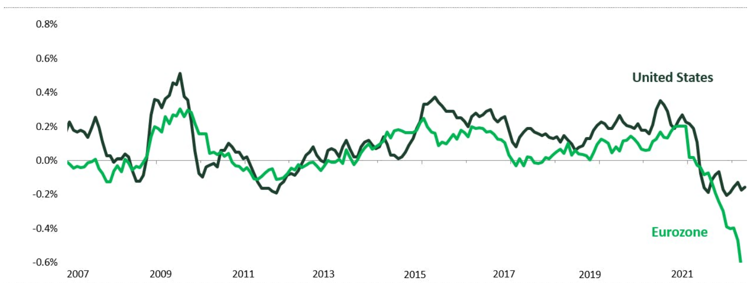
Real wage growth in the US and eurozone, 2007–present
(year-on-year)



Source: Carmignac, May 2022

In the US, household wealth and excess savings have grown considerably thanks to government measures to help households through the pandemic, coupled with a steep rise in stock markets and home prices. This has put US workers in a strong bargaining position for securing hefty pay rises, with nearly 60% of wage-earners experiencing an increase in their real (i.e. inflation-adjusted) wages. In that part of the world, **inflation is being driven just as much by robust consumer spending as it is by the supply shortages resulting from supply-chain bottlenecks.**

However **in Europe, the jump in inflation is due mainly to higher energy prices along with the supply constraints.** Here, real wage growth is deeply negative, putting the brakes on consumer spending. And unless we see a significant adjustment, there's a strong chance this will lead to a marked slowdown in economic activity.

Rate hikes therefore seem much more justifiable in the US, where a wage-price spiral has taken hold, than in Europe, where most of the consumer-price appreciation is due to outside factors over which the ECB has little control. Given that the ECB must adhere to its mandate and aim for a target inflation rate, we believe **it's now time for European governments to use fiscal policy to address the structural factors of inflation.** Fighting inflation too aggressively could end up being counterproductive to economic growth.

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