During the second part of my gap year, I interned at Allianz Trade within the Economic Research department of the Paris team. Following my internship at AEW I was interested in joining a research department where I could be involved in publication work on a wide range of economic subjects. The Economic Research department is split between Paris (Allianz Trade) and Munich (Allianz SE) and produces weekly publications on high-profile topics. It ranges from reaction to events, analysis of certain data releases, updates on the teams’ view ahead of Central Banks meetings etc… These publications are usually composed of 3 short reactionary or forward-looking ‘stories’ (1 page long) and one longer ‘feature’ (2/3 pages long). In addition to the weekly release the team also produces longer-term pieces. One or two a month are usually published. In the six months I spent within the team I had the chance to work on many different releases, including the annual Trade Survey report with my tutor, and I decided to focus on two specific ones.

Firstly, I chose to present the work I did with Mr. Maxime Darmet on a ‘feature’ that tackles the issue of accrued savings since the pandemic in advanced economies (namely France, Germany, Spain, Italy, the UK, and the US). As the Covid crisis was disrupting most sectors of every economy, macroeconomic variables broke from their pre-pandemic trend. Intensives to consume were heavily curbed and governments launched support programs to assist their economy, especially with social transfers addressed to households. It is this disruption introduced in the data that we leveraged to compute the excess in disposable income relative to the shortfall in consumption. From the excess savings stock estimate for the whole economy, we also derived a per household stock in late 2022 that highlights which strata of the population potentially benefited the most from this period. We also gave a shot at estimating the form in which these stocks of excess savings were held in in the different countries of our study. Our work ended up as a feature for the publication, but we also kept it as a monitoring file that we would update monthly during my time in the team. It is does not replace other models that economists have for the countries they monitor but rather comes as a secondary source with a different approach that could easily be updated by interns (if it is to be kept).

Secondly, the larger piece of my report, relates to the work I did for Mrs. Roberta Fortes PhD and Mr. Darmet. The team had planned to publish a report on the European labour markets, and they were two of the five economists involved in the process. I then had the chance to work on the wage part of the study where we assess wage development and inflationary pressures in the context of questioning a potential risk of wage-price loop. We evaluate to what extent macroeconomic variables such as labour market slack, inflation, and productivity growth account for wage dynamics, which consistent with economic theory should concur with demand-side drivers of inflation. We also evaluate different proxies for labour market slack since supply-side and demand-side indicators seem to have been diverging recently and imply different degrees of tightness for the labour market. In addition, we broaden our study by trying-out several slack measures as the unemployment rate alone may not adequately capture all constraints in the labour market leading to wage inflation. We assess recent drivers of wage developments using- from the estimated models- its variable decomposition which we also build on to produce forecast and an outlook for the different markets. Lastly, we provide a labour productivity breakdown of different European countries that highlights, as of late 2022, lasting structural differences after the Covid-19 pandemic.

Below are the key takeaways:

* We find that other measures of slack can perform as best as (and sometimes better) the unemployment rate to explain wage growth. The different measures also all point towards discrepancies in inflationary pressures on wages in the peripheral countries than in the core countries.
* Wage growth has been strengthening over the past year, supported by robust labour markets and some catch-up in wages to compensate workers for high inflation. While this is likely to decelerate as inflation eases and the economy slows further in core countries, peripheral countries could potentially be challenged with delayed rapid wage increases which could put further pressure on core inflation.
* There has been ivergent dynamics within the Eurozone regarding productivity changes due to structural factors.

More than becoming a technical expert on a specific subject, this internship provided me with a broader view of economic subjects and ways to conduct research. In addition to the two projects presented in this report, I also worked on topics such as a small global trade model; an assessment of increasing inflation’s effect on sovereign debt ratio; or computing corporate profit margins and introducing a proxy for some industries.

The first part of my report sheds light on several critical aspects of the stock of household excess savings in both European countries and the United States. First and foremost, it is evident that the stock of excess savings continues to be substantial in absolute terms in these regions. European countries have only recently begun to experience a slight reduction in this surplus, while American households embarked on the depletion of their savings as early as Q4 2021.

Moreover, the distribution of excess savings among income groups highlights a significant disparity. As of early 2023, the bottom 40% of the income spectrum in these regions have fully depleted their excess savings, underscoring the unequal impact of the prevailing economic conditions. Conversely, higher income households tend to view their excess savings as assets rather than immediate disposable income, resulting in a reluctance to spend, which has implications for overall economic recovery.

Furthermore, the difference in consumption patterns between the United States and European countries is noteworthy. Following the pandemic, the United States experienced a more rapid increase in consumption spending compared to European nations. However, this heightened consumption has led to a swift depletion of excess savings in the US. The increasing financial strain on American households indicates that this trend is likely to persist, potentially resulting in the complete exhaustion of excess savings throughout the year.

In light of these findings, it is imperative for policymakers and financial institutions to closely monitor the dynamics of excess savings, as they play a pivotal role in shaping both short-term economic recovery and long-term financial stability. Addressing income disparities and promoting responsible financial management among various income groups will be paramount in achieving a balanced and sustainable economic outlook. Additionally, a vigilant approach to managing the rapid depletion of excess savings in the United States will be crucial to ensure the resilience of households in the face of economic challenges.

The second project presented in this report shows that various alternative measures of labour market slack can perform equally well, if not better, than the traditional unemployment rate in explaining wage growth. These alternative metrics consistently reveal disparities in inflationary pressures on wages between peripheral and core countries within the Eurozone.

Over the past year, wage growth has exhibited a notable strengthening, buoyed by robust labour markets and efforts to compensate workers for surging inflation. However, it is anticipated that this upward trajectory in wage growth may gradually decelerate, especially as inflation subsides and economic activity slows in core countries. On the contrary, peripheral countries may confront a different challenge, potentially experiencing delayed but rapid wage increases that could exert additional pressure on core inflation.

Additionally, it is crucial to acknowledge the diverse dynamics at play within the Eurozone concerning changes in productivity. These variations are largely attributable to structural factors, further underscoring the need for a nuanced approach in addressing productivity disparities among member states.

Overall, rather than becoming a technical expert on a specific subject, this internship provided me with a broader view of economic subjects and ways to conduct research. In addition to the two projects presented in this report, I also worked on topics such as a small global trade model; an assessment of increasing inflation’s effect on sovereign debt ratio; or computing corporate profit margins and introducing a proxy for some industries.