

Recent RPI inflation readings below historical average



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Malta has been no exception to the surge in inflation during 2022 and 2023 across Europe and beyond

While the freeze in domestic energy prices to local consumers have to some extent aided households in limiting losses in purchasing power and mitigated the surge in input costs to businesses, nevertheless the adverse effects of high inflation on living standards, especially for low-to-middle income groups, have been tangible.

Indeed, high inflation and widening of profit margins have triggered, justifiably, higher wage demands which tend to react with a lag. Furthermore, tightness in the labour market has tilted the balance of power in wage negotiations in favour of employees despite continued strong inward migration flows.

According to NSO data, wages rates in Malta increased on average by 3.1% per annum between Q1 of 2005 and Q1 of 2021, rising from around €12,000 per annum to almost €20,000 by the end of this period. However, wage rates grew by 4.7% in 2022, and accelerated by 8.5% in 2023, rising to around €22,000.

This rise in wage inflation above its long-term average was a response to the surge in inflation experienced in the past two years. Measured in terms of changes in the Retail Price Index (RPI), inflation in 2022 surged to 6.2%, easing slightly to 5.1% in 2023. Lower inflation in 2023 has also led

% Annual Average Rate of Change				
	HICP	RPI	Wage Rate	
2003 - 2012	2.5	2.4	3.4	Q1 2006 - Q1 2013
2013 - 2021	1.1	1.1	2.9	Q1 2014 - Q1 2022
2022 - 2023	5.8	5.7	6.1	Q1 2023 - Q1 2024
Long-Term				
2004 - 2023	2.2	2.2	3.4	Q1 2006 - Q1 2023
Peak Inflation				
Sept - Oct 2022	7.4	7.5		
2024 Inflation				
Jan - Jun	2.7	2.0		
June	2.2	1.3		

Data sources: Eurostat & NSO.

to slower growth in wages, where in Q1 of 2024 they grew by 3.8% to around €23,000, which nevertheless remains higher than its long-term average annual growth of 3.4%.

From a historical perspective, in the decade up to 2012, just before the sovereign debt crisis in Europe, annual inflation in Malta averaged at around 2.4%, with wages growing on average annually at around 3.4% up to Q1 of 2013, which translates into approximately a 1ppt growth in purchasing power per year.

The subsequent nine-year period, starting from 2013 to 2021, inflation was very low, averaging at just 1.1% per year, with wages growing at an annual average of 2.9%. Thus, although annual wage growth had slowed compared to the previous decade, the extent of the decline in inflation had boosted real wages by about 1.8ppt each year compared to just 1ppt annual average for the previous decade.

It is therefore no surprise that the high inflation of 2022-2023, averaging at 5.7% annually, led to a loss in consumer

confidence, as signalled by the European Commission's Economic Sentiment Indicator, given that annual wage growth between Q1 of 2022 and Q1 of 2024 stood at 6.1%, meaning that during these two years, real wage growth slipped to just 0.4ppts, which is just over a fifth of that recorded between 2013 and 2021, and less than half that recorded in the preceding decade from 2003 to 2012.

Monetary policy in the Eurosystem, as in other major developed economies, has been very aggressive in seeking to tame inflation from the highs seen in 2022-2023. This has led to rapid disinflation, despite the catch-up of wages to recover the loss in purchasing power in the past two years. Nevertheless, second round effects on prices were largely absent as the high inflation period had boosted profit margins, leaving enough room for businesses to absorb such wage increases.

In Malta, inflation has come down rapidly, both in terms of the RPI and the HICP measure. As can be seen from the Table,

peak inflation was recorded in September-October of 2022 at around 7.5%, coming down to 2.7% in the case of the HICP, and more crucially for the RPI – the relevant gauge for the determination of COLA – to 2% in the first half of 2024.

Thus, the latest readings, particularly in respect of the RPI, shows that inflation in Malta for the first half of 2024, at 2% is already below the long-term average of 2.2%. Indeed, inflation for the latest month, June, was substantially below 2%, while in the case of the HICP measure, inflation in June was in line with its long-term average.

These developments in inflation in Malta suggest that this is now no higher than its historical average, and somewhat lower in the case of the RPI, which is good news. More crucially, if the annual rate of growth in wages of 3.8% seen in Q1 of 2024 persists for this year, the real purchasing power of wages would return to around 1.8ppt, as that seen in the 2013-2021 period, which is higher than the historical average of 1.2ppt.

Going forward, caution and vigilance is required in respect of wage growth, ideally returning to its long-term annual average of around 3.4% and accompanied with adequate productivity growth to ensure that external competitiveness is not compromised. While close monitoring of inflation, particularly in services, is still warranted, measures aimed at moderating demand, especially for real estate, appear needed to tame property price inflation.

According to Eurostat, the latest readings relating to Q1 of 2024 show that property prices grew by 6.7%, which is around 1ppt higher than its historical annual average since 2006. This could give rise to risks of second round effects on domestic inflation, either by sustaining high domestic consumption through positive wealth effects by homeowners or through higher wage pressures by those aspiring to becoming one.

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