Global Demographics

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Update on Prices and Wages

The long-awaited uptick in core CPI inflation resulting from the "base effect" came in about as expected. The year-on-year percent change of 2.1% puts the inflation rate a bit below where it was in the first two months of 2017 (see Chart 1). Although there has been considerable press regarding the depressing effect of lower mobile phone prices in March 2017, the overlooked reality is that the monthly increases in the core CPI were lower in 7 of the remaining 9 months of 2017 (see Chart 2). Although the Fed might be pleased that inflation is at their 2% target, it is our opinion that the March results do not signal that the U.S. is on the verge of an inflation problem. Nor is it ordained that the Fed's target will be maintained – core CPI inflation was above 2% early last year only to settle back down.

The much more critical issue on the Fed's radar are wages. The March employment report continues to confirm our view that wage inflation will remain moderate - the year-on-year percent change in average hourly earnings (AHE) came in at 2.7%, about on a par to where it has been for quite a while (see Chart 3). The premise that the tax cut would result in larger wage increases remains missing in action. The average monthly increase in AHE for the first three months this year is 0.2%, the same as it was in both 2017 and 2016. Nor did wage growth accelerate - the annualized quarterly percent change actually recorded a deceleration (see Chart 4). Our preferred measure of wage inflation is the Employment Cost Index (ECI). We expect that the ECI for the first quarter, which will be released on April 27th, will corroborate our opinion that wage inflation remains moderate. We repeat our view that moderate wage inflation will be the continued positive surprise this year.

Chart 1

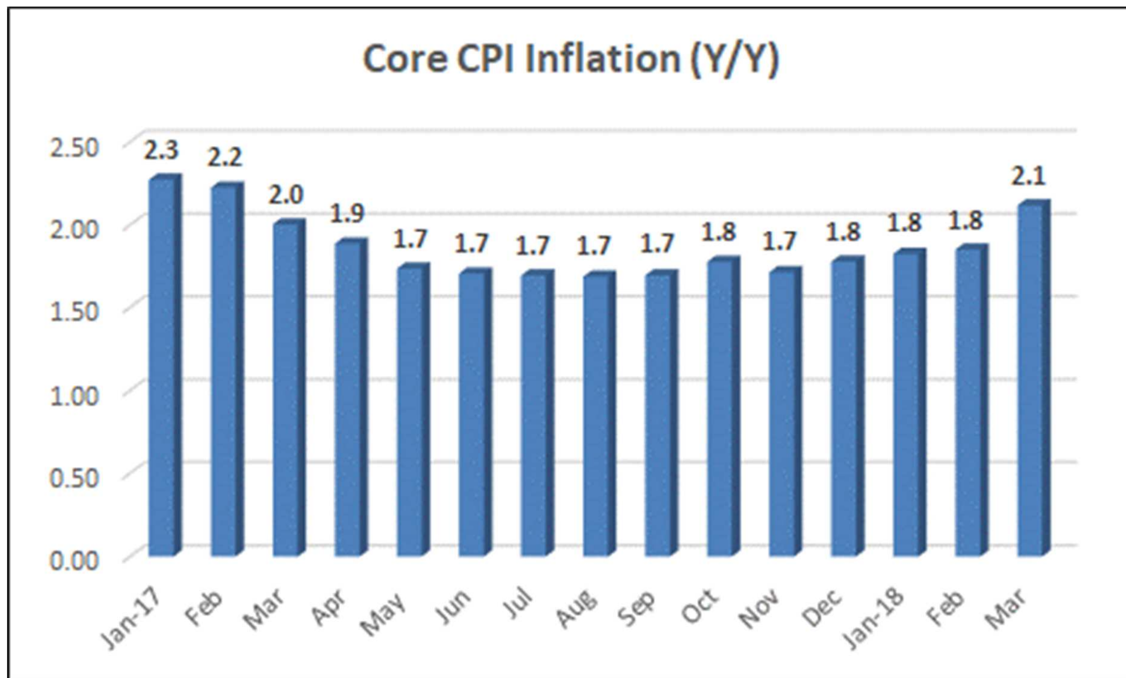

Chart 2

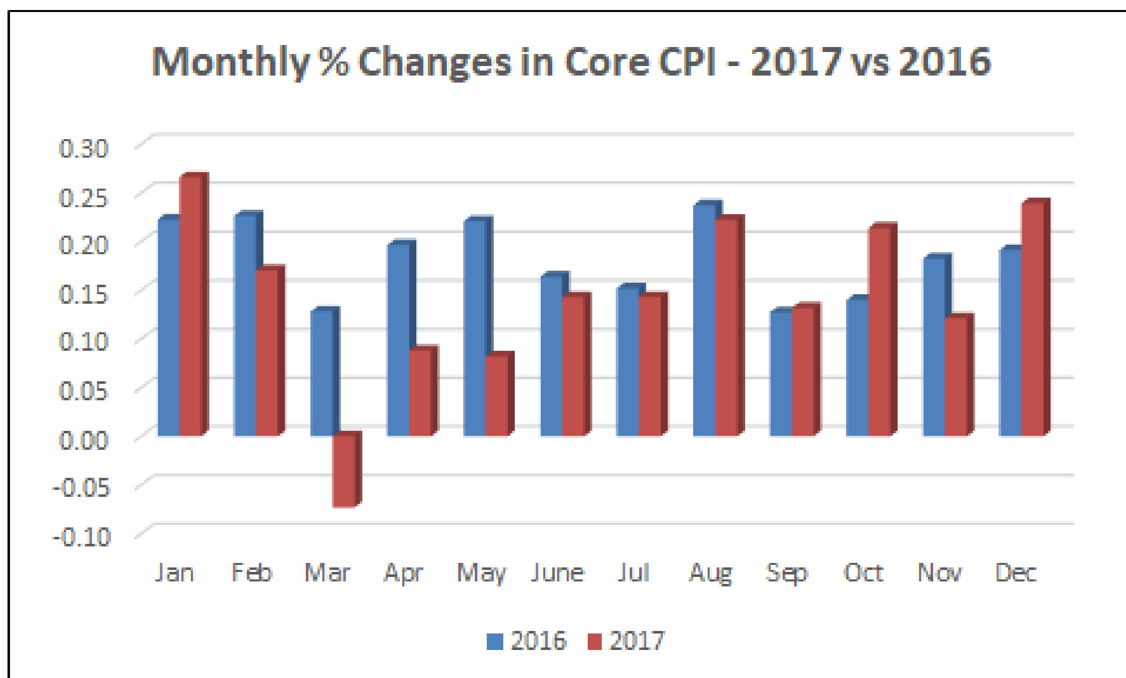

Chart 3

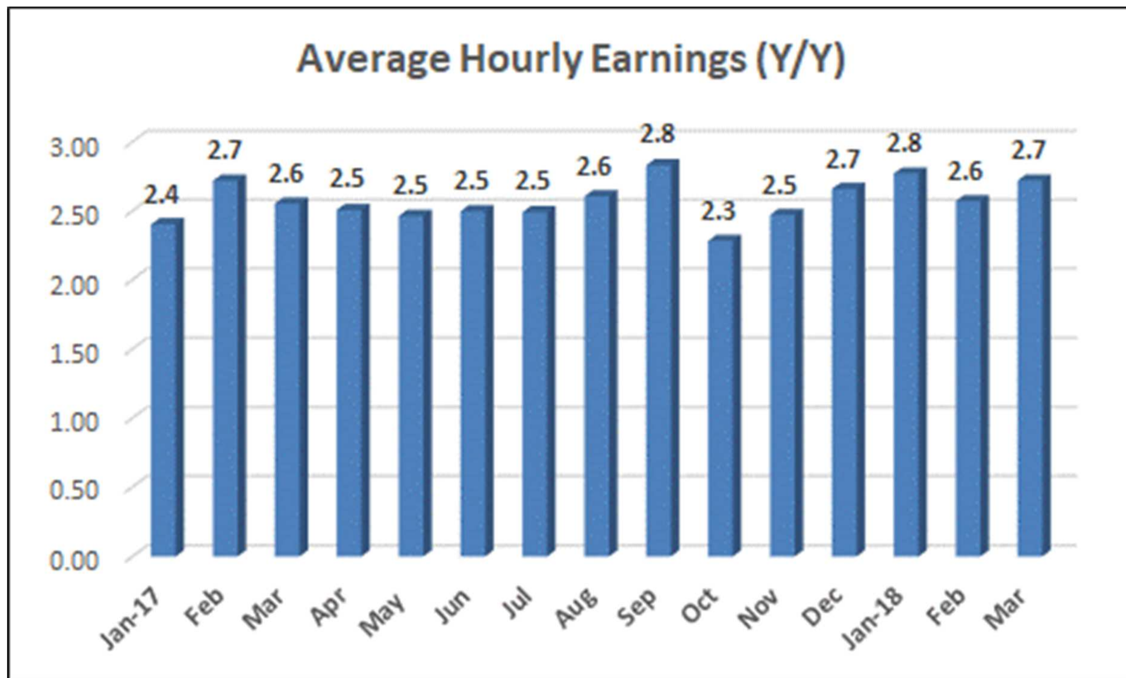

Chart 4