Global Demographics

Richard (Dick) Hokenson
rhokenson@hokenson.biz
+31 6 5518 3873

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Wage Inflation Remains Moderate

Contrary to most expectations, average hourly earnings increased by only 2.56% in April versus 2.64% in March (see Chart 1). The annualized three-month change, which had spiked up in March, fell to 2.0% in April, further reinforcing our view that wage inflation remains subdued, i.e. the economy has not yet reached NAIRU (see Chart 2). The persistence of wage moderation even as the unemployment rate has declined to 3.9% is at total variance with the expectation that labor market slack had evaporated, an expectation that appeared to be confirmed by the then reported 2.9% increase in January wages. As we said then, this spike resulted from reducing the level of wages in January 2017 (don't raise the bridge; lower the water). One month later, BLS revised it away. In other words, it never happened! Despite that, the volatility created by the original print continues today.

The decline in the unemployment rate resulted from a big drop in the number of unemployed persons (see Chart 3) that surpassed the decline in the labor force (see Chart 4). The monthly changes in the labor force are very volatile but we are encouraged that the average gain for the first four months of this year are the best this decade (see Chart 5).

The two other main positives are that U-6 (percent of labor force that is unemployed, underemployed or discouraged) fell to a 17-year low (see Chart 6) and foreign-born employment recorded another nice increase (see Chart 7).

There were, however, several other developments that signal that the US is not yet fully employed. The proportion of the labor force that has been unemployed 27 weeks or more has improved but has yet to reach prior lows (see Chart 8). The same holds true for the likelihood that someone who is unemployed will remain unemployed (see Chart 9) as well as the likelihood that the unemployed will become employed (see Chart 10).

Investment Conclusion

Although the persistence of subdued wage inflation is likely to continue to befuddle the Fed and most of the investment community, it should also restrain the Fed.

Chart 1

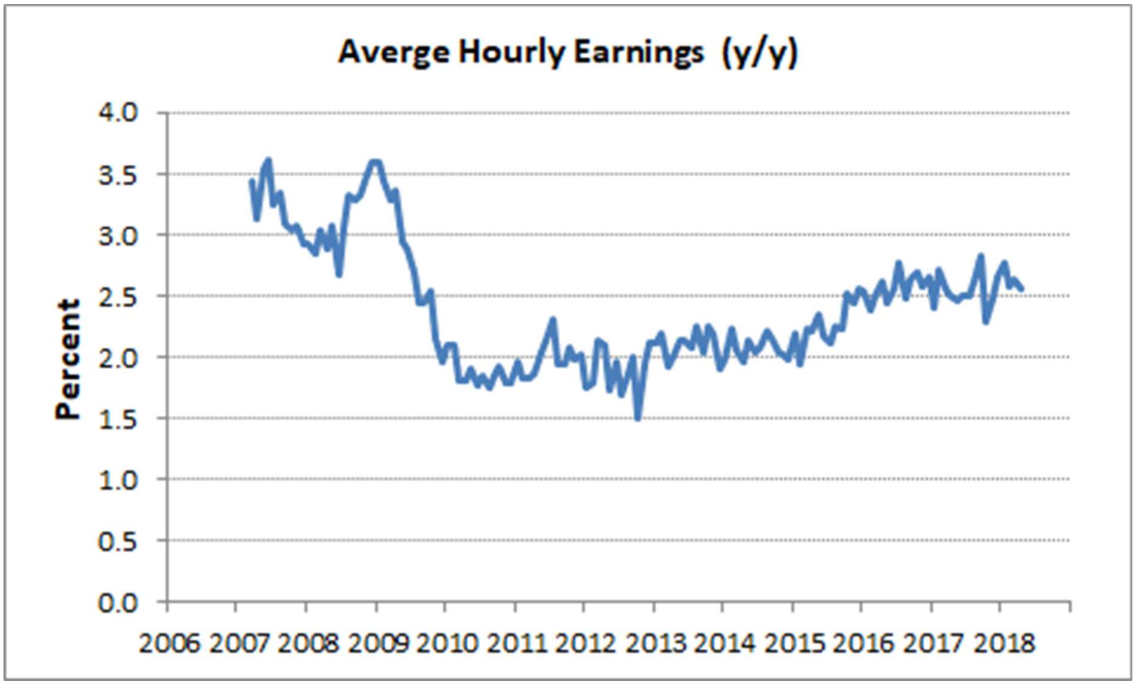

Chart 2

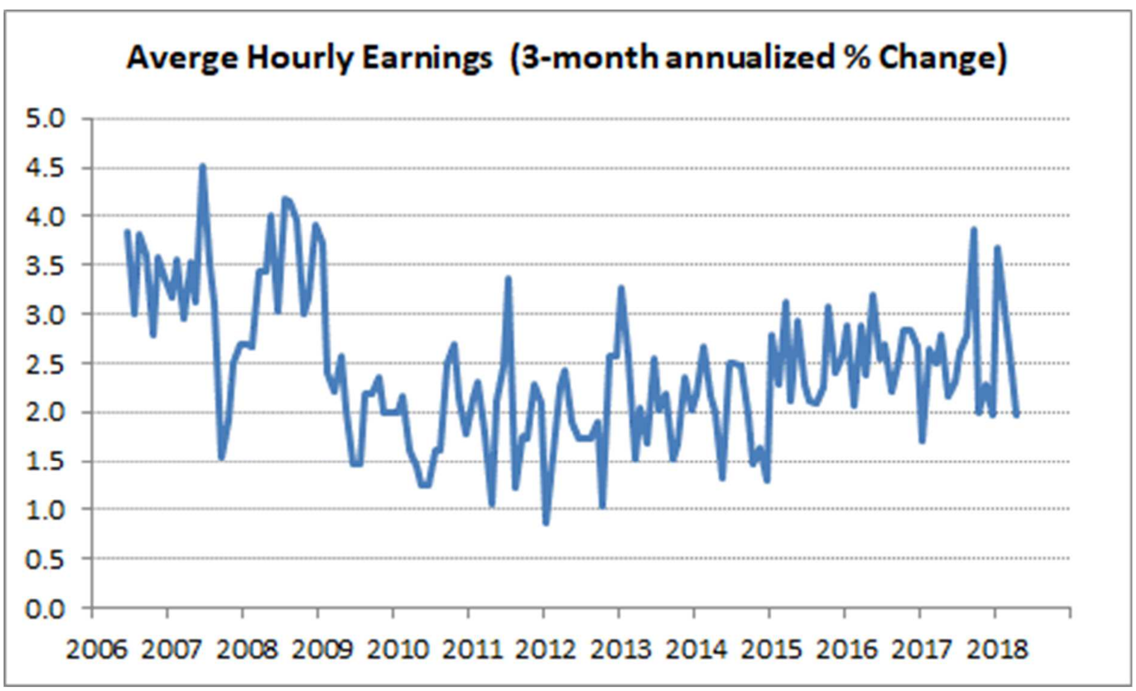

Chart 3

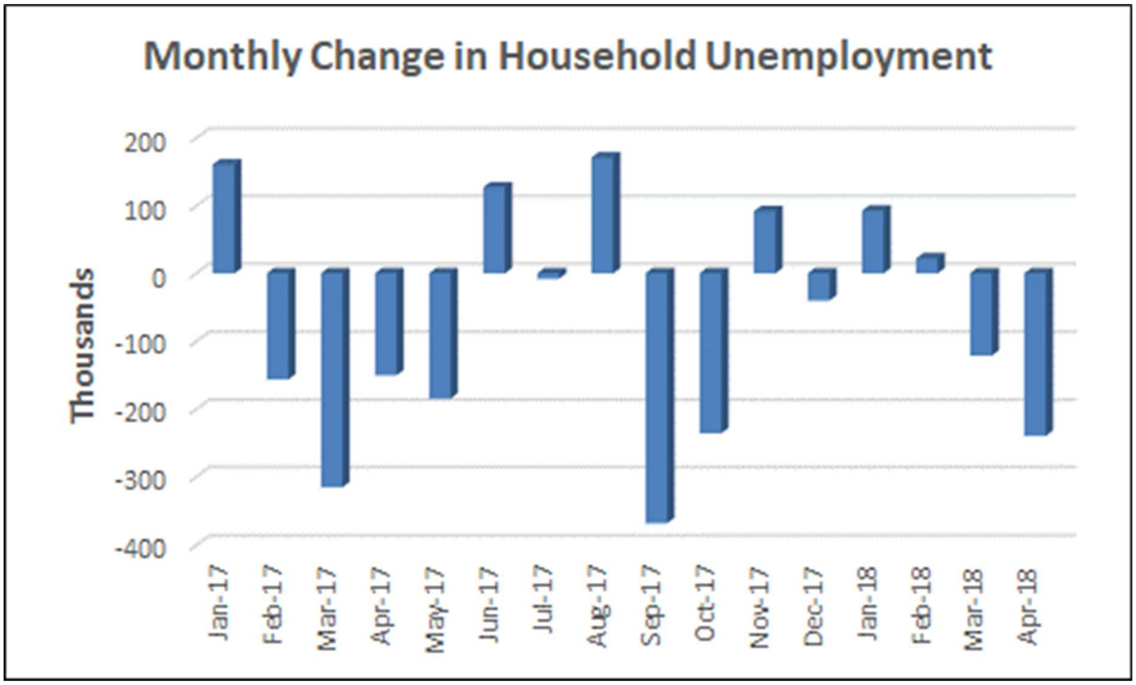

Chart 4

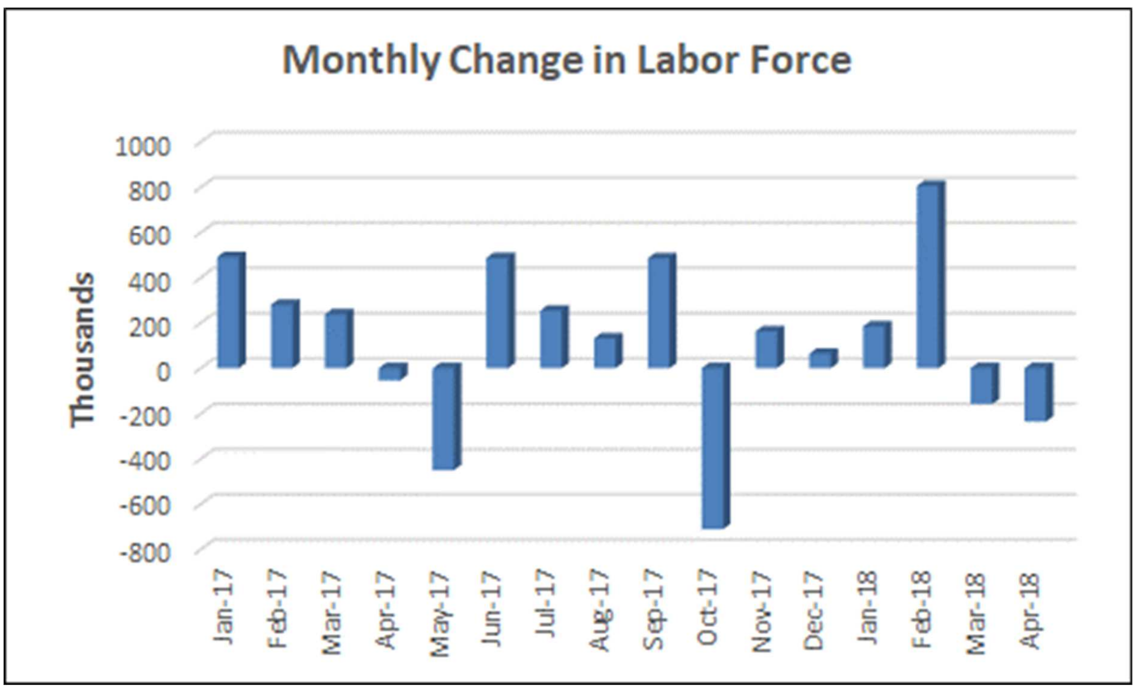

Chart 5

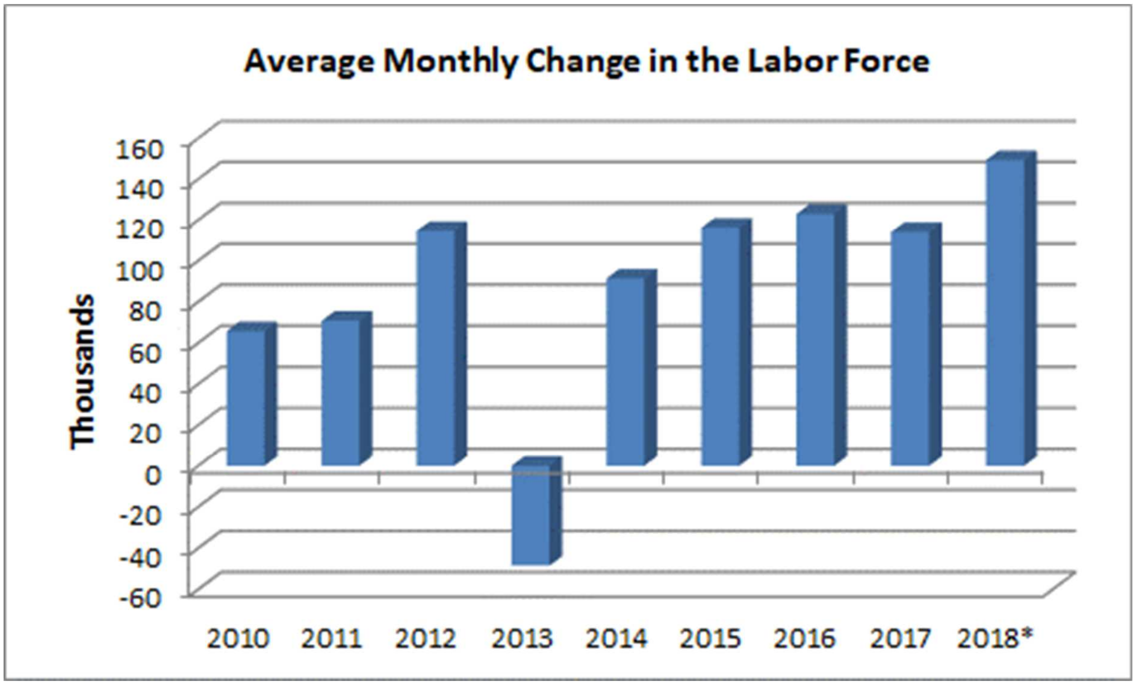

Chart 6

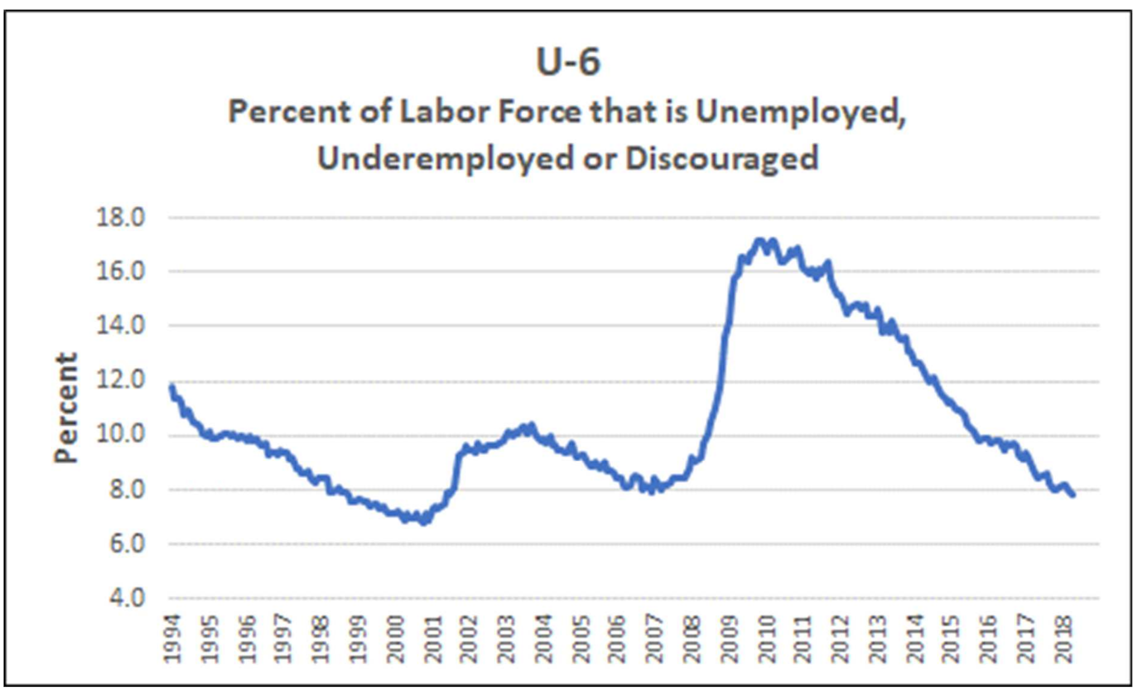

Chart 7

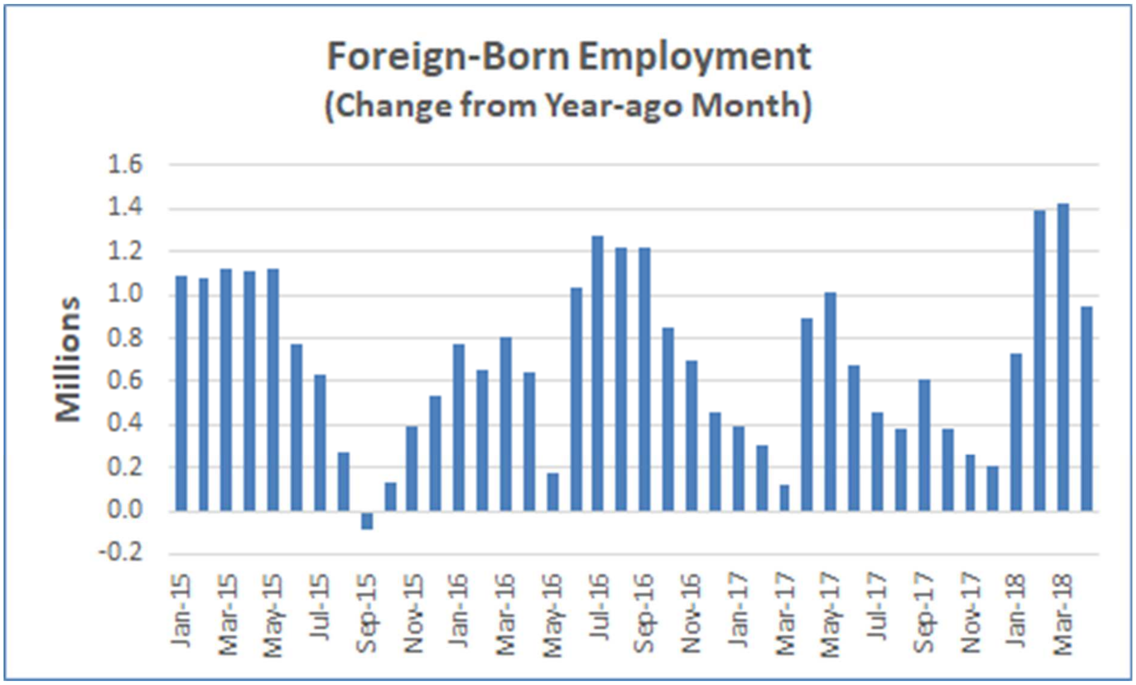

Chart 8

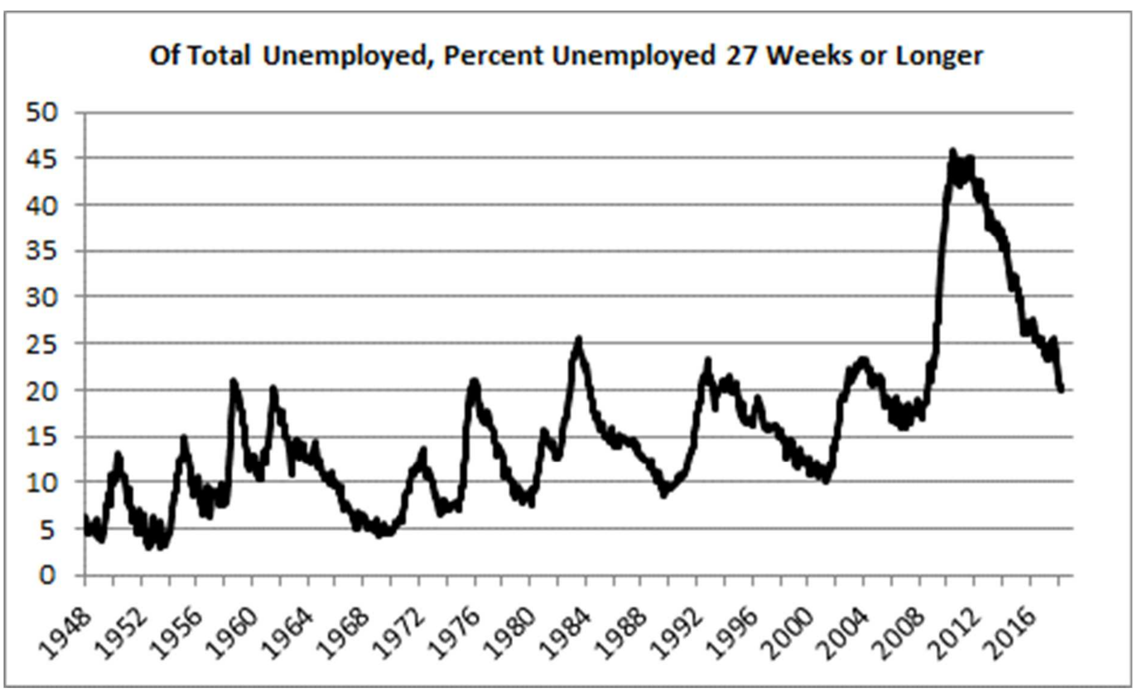

Chart 9

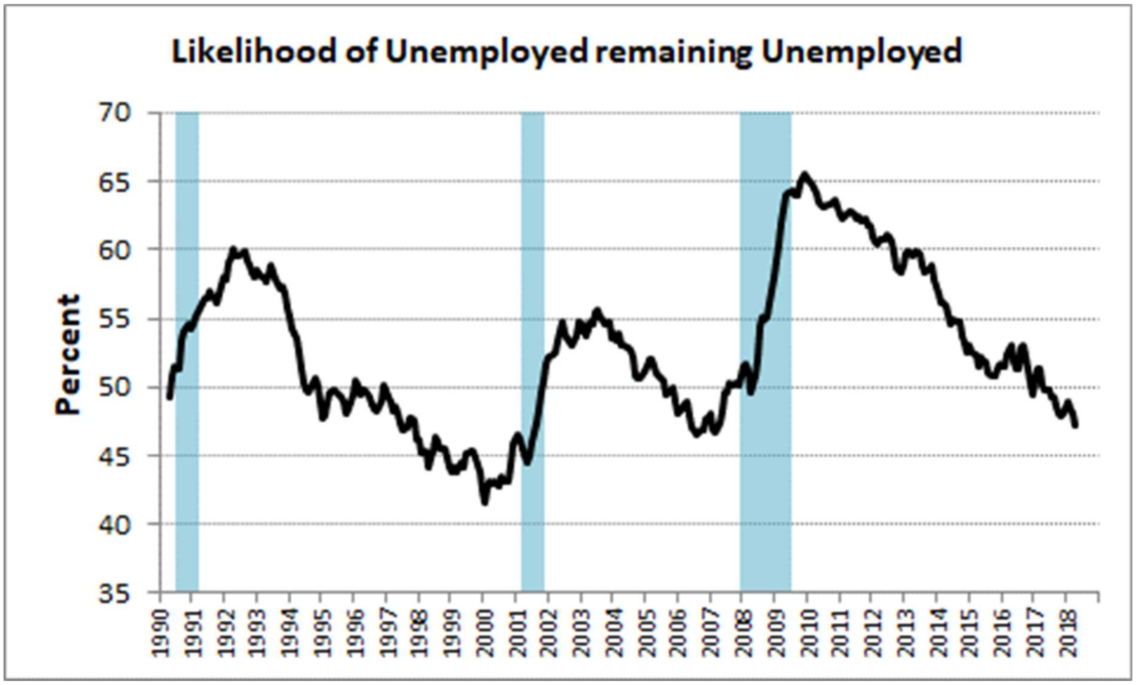

Chart 10