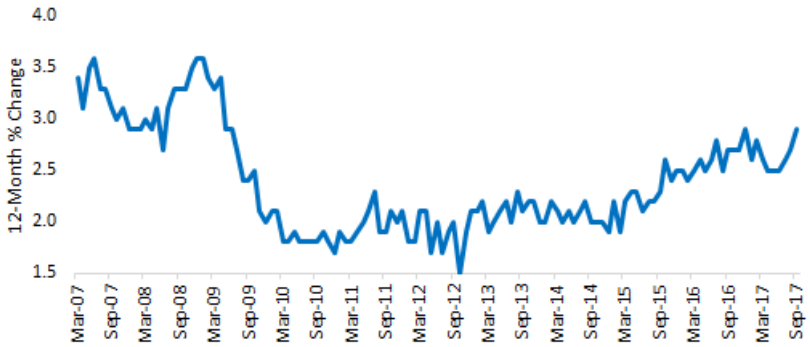
SEPTEMBER WAGE GAINS: REAL OR PHOTOSHOPPED?

Kevin Flanagan — Head of Fixed Income Strategy
10/11/2017

Certainly one of the more disappointing aspects of the employment data over the last couple of years has been the lack of any significant wage gains. Indeed, the unemployment rate has been at or under the 5% threshold since September 2015, but investors and the Federal Reserve (Fed) have been left wondering: Why haven't we seen any wage pressures develop? The September 2017 Employment Situation Summary may have offered the first glimpses of the long-awaited gain in wages. However, investors would be forgiven for curbing their enthusiasm because we have been down this road before. In addition, the effects of last month's hurricanes were definitely seen in the jobs report. Nevertheless, it appears to be a step in the right direction.

Let's look at the numbers. For September, the Bureau of Labor Statistics (BLS) reported that the year-over-year gain in average hourly earnings (AHE) came in at 2.9%. This matched the cycle high-water mark that was printed in December, and it represents the highest reading in more than eight years. As you can see in the accompanying graph, the annualized gain for AHE has been stuck under the 3.0% threshold even as the Great Recession ended in mid-2009.

Average Hourly Earnings



Source: Bureau of Labor Statistics, as of 10/6/17. Past performance is not indicative of future results.

Back to the point I made earlier about "being here before": Following the December 2016 2.9% increase, the pace of wage gains actually decelerated, falling back to a low of 2.5% for three consecutive months (April through June) before reversing course this summer. As a result, the year-over-year performance essentially looks like a U-shaped pattern in the graph.

That raises the question: Is the September gain real, or has it been photoshopped? According to the BLS, Hurricanes Harvey and Irma did "reduce the estimate of total nonfarm payroll employment," as the first negative figure (-33,000) was registered in exactly seven years. So what industries would tend to reveal a negative impact in such a scenario? Typically, it would be leisure and hospitality, and in September that category posted an eye-opening decline of 111,000.

Why is this important on the wage front? Those industries tend to be lower paying, and as a result, that type of decline would tend to skew the AHE toward higher-paying industries, boosting the gain in wages accordingly. Obviously, this outcome will ultimately be reversed next month or over the next two months, so we may have to wait yet again before another attempt is made to breach +3.0%.

Conclusion

The good news is that a reaccelerating trend seemed to be in place during the prior two months. To be sure, both the July and August year-over-year increases were revised upward to +2.6% and +2.7%, respectively. As I have discussed in the past, the U.S. Treasury (UST) market's focus has shifted more toward the earnings data than the headline payroll figure. That was on full display with the release of the latest jobs numbers, as the decline in payrolls was ignored in favor of the surprising upside to wages. Against this backdrop, the UST 10-year yield popped up to 2.40% in intraday trading, the highest reading since May, and up 36 basis points (bps) from the post-Labor Day low of 2.04%. While safe-haven buying due to geopolitical headlines remains a key part of the mix for UST yields, fixed income investors should keep their eye on upcoming wage trends; you know the Fed will be watching!

Unless otherwise noted, data source is Bloomberg, as of October 6, 2017.

For standardized performance and the most recent month-end performance click here NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our Economic & Market Outlook

View the online version of this article here.

IMPORTANT INFORMATION

U.S. investors only: Click here to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Recession : two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemploymen.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Basis point : 1/100th of 1 percent.