

Is US wage growth finally stepping out?

Published 19 November 2018

Kevin Flanagan

Head of Investment and Fixed Income Strategy

The calendar keeps flying by, and kicking off Q4 economic data, investors recently received the US October employment situation report. The money and bond markets have 'graduated' of sorts, and the typical headlines regarding the unemployment rate and new job creation have been rendered more secondary in importance at this point of the cycle, with wages now moving to centre stage. According to the latest jobs report from the Bureau of Labour Statistics (BLS), average hourly earnings (AHE), on a year-over-year basis, broke out of its recent range, begging the question; is US wage growth finally stepping out to the upside?

Without a doubt, the one 'sticking point' that seems to have alluded the US Federal Reserve (Fed) in their policy outlook has been the lack of any significant wage growth. Sure, the path of AHE has been on the positive side of the ledger, but the trajectory, or pace of the upside movement, has appeared to have confounded market participants.

Figure 1: Average hourly earnings

Source: Bureau of Labour Statistics, as of 2 November 2018

The graph above highlights how the year-over-year rate of increase for AHE had been locked in a rather narrow band of roughly +2.5%–+2.8% since the end of 2015. It seemed as if every time there was a surprise to the upside, the following month or so reversed this performance, rendering any unexpected gain as a 'false start'. However, over the last three months, the BLS has reported that the AHE annualized gain has twice hit the '+3%' threshold, and in the case of the just released October data, the +3.1% increase represented the best showing since early 2009.

With two out of last three months producing '3' handles for AHE growth, investors may finally be witnessing the long-awaited upside momentum in wages. As we have seen in prior episodes, the trajectory may not always be a straight-up move to the upside, but it does look as if progress is being made on this front. The scope of wage growth throughout various industries was also encouraging, an important point to consider because it can help to rule out the dreaded 'aberrational' result which tends to ultimately get cancelled out in future reports.

Conclusion

While the United States Treasury (UST) market did sell-off a bit on response to this data, the back-up in the UST 10-year yield was not necessarily noteworthy, nor did it signal any newfound concerns on the inflation front just yet. Inflation expectations, as measured by 'breakeven' spreads were only modestly higher after

the jobs report. The bond market and the Fed have been down this road before and will more than likely wait to see the 'whites of the eyes' of sustainable wage growth before responding. In fact, this is just the type of result the Fed has long been waiting for. However, developments on the wage front will need to be monitored closely, because any upside surprises to this data, or inflation in general, is not currently factored into UST 10-year yields.

Related blogs

- + [US Dollar trifecta: inflation, elections, policy](#)
- + [Global fixed income: Breaking new ground?](#)

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.