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UNITED STATES

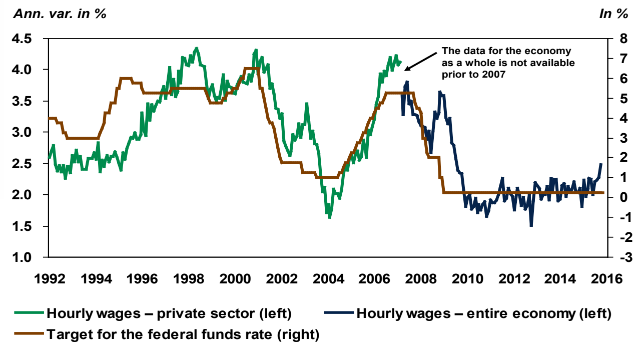
Wage growth now points to rate increases

The Federal Reserve's (Fed) key interest rates have not budged since 2008. The status quo is now coming to an end and the focus has shifted to the date of the first key rate hike. At first, the scenarios revolved around the June 2015 meeting, then the September meeting, and now the December 16 meeting. The strength in hiring already allowed Fed leaders to opt to initiate monetary firming. One other condition, which we think is essential, has recently been met: wages are finally picking up speed.

In an *Economic Viewpoint* released at the end of 2014, we concluded that "faster wage growth for the economy as a whole seems to be a prerequisite for key rate increases." The annual increase in hourly wages has been sitting at around 2% for a long time; for some of 2015, a lack of acceleration prevented this prerequisite from being met, explaining why the Fed has been hesitant. There was a recent trigger, however. In September, the annual change in hourly wages reached 2.3%, a level not seen since the fall of 2009. In October, growth increased to 2.5%. The advance is diverging from the strong trend that had been entrenched since 2010. Several other indicators confirm this observation. Wage growth therefore now seems solid enough to prompt the Fed to raise its key rates, even if only very slowly.

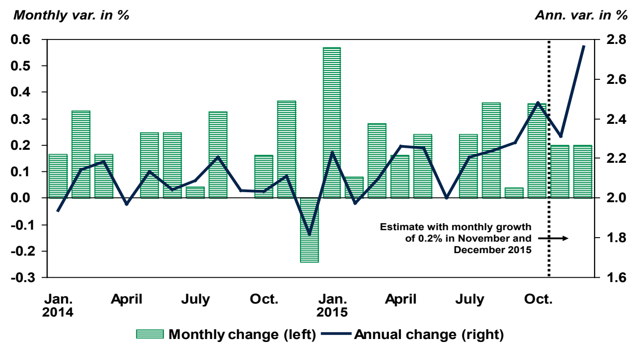
Of course, we will have to watch for November's employment results, which will be out on Friday, December 4. Along with hiring and the jobless rate, the focus will be on wages. It would be normal to see a little deceleration in the annual change, however. October's monthly 0.4% gain is hard to sustain for more than a month, this indicator being quite volatile. As wages went up 0.4% in November 2014, a monthly gain of 0.2% in November 2015, which is the consensus forecast, would drag the annual change down, taking it from 2.5% to 2.3%. However, the December 2015 figures, which will be released in January 2016, will benefit from a positive base effect.

Wage acceleration is one factor that will make the Federal Reserve decide to kick off key rate increases



Sources: Federal Reserve Board, Bureau of Labor Statistics and Desjardins, Economic Studies

Annual wage growth could slow in November, but should rebound in December



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Implications: The Fed seems set on raising key rates at its December 16 meeting. The recent advance by wages is one factor that will bolster that decision. Wage growth is not yet strong enough and the risks to the situation are too numerous to assume rates will rise quickly. On the contrary, normalization should be very gradual and studded with pauses.

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