United States: The Recent Wage Run-Up Not Looking Too Solid

The rout on the stock markets and rising bond yields since the end of January can be explained in part by the resurfacing of inflation concerns. This change of tone was fuelled by the release of data on the U.S. job market in January, and more particularly, the growth in the average hourly wage. Its annual change rose to 2.9%, the highest rate since May 2009.

This acceleration in the annual change to the average hourly wage does not, however, appear to be terribly convincing in our view. This is because other measures suggest that bottom line, the situation has not really changed. First of all, the widely circulated increase recorded in January only affected the data on “all employees,” and not the data on “production and non-supervisory employees.” The annual increase in the average hourly wage for these workers was just 2.4% in January, i.e. the same as the average for the past two years. There is no wage acceleration for these employees and the increase appears to apply exclusively to management employees. This implies an annual gain of 3.9% in wages for this category, which in January accounted for only 17.5% of workers in the private sector.

Secondly, this non-widespread wage growth was also pinpointed by the Atlanta Federal Reserve’s Wage Growth Tracker. This index is compiled based on microdata from the household survey; it takes into account the median wage instead of the average hourly wage. We note that the data for January shows little change against December’s figures—if anything, the trend shows a deceleration.

**IMPLICATIONS**

Taking a closer look, the wage growth reported in January is not that substantial. The uptrend should continue in step with the improvements in the job market, but the investors, much like the Federal Reserve, should tread carefully before reacting to monthly jolts that can blur the actual situation.