

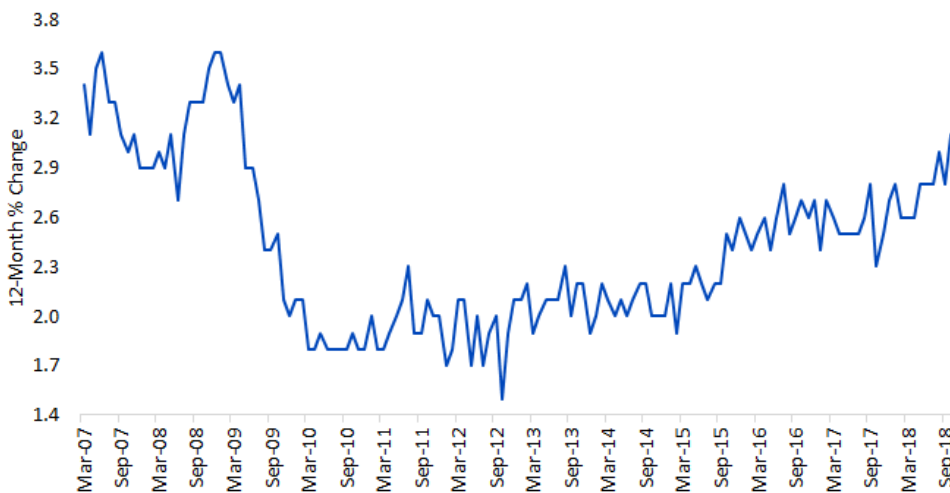
# IS U.S. WAGE GROWTH FINALLY STEPPIN' OUT?

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The calendar pages keep flying by, and, kicking off Q4 economic data, investors have just received the October Employment Situation Report. As I've blogged throughout the year, the money and bond markets have, in a sense, "graduated" from the typical headlines regarding the unemployment rate and new job creation (which are more secondary in importance at this point of the cycle) to a greater focus on wages. According to the latest jobs report from the Bureau of Labor Statistics (BLS), average hourly earnings (AHE), on a year-over-year basis, broke out of their recent range, raising the question: is U.S. wage growth finally stepping out to the upside?

Without a doubt, the one sticking point that seems to have eluded the [Federal Reserve \(Fed\)](#) in its policy outlook has been the lack of any significant wage growth. Sure, the path of AHE has been positive, but the trajectory, or pace of the upside movement, appears to have confounded market participants.

## Average Hourly Earnings



Source: Bureau of Labor Statistics, as of 11/2/2018.

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% to 2.8% since the end of 2015. It has seemed as though every time there was a surprise to the upside, it was reversed in the following month or so, turning any unexpected gain into a "false start." However, over the last three months, the AHE's 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 of last three months producing 3% handles for AHE growth, investors may finally be witnessing the long-awaited positive momentum in wages. As we have seen in the past, the trajectory may not always be a straight line, but it does look as if progress is being made. The scope of wage growth throughout various industries was also encouraging, an important point to consider because it can help rule out the dreaded “aberrational” result that tends to get cancelled out in future reports.

## Conclusion

While the [UST](#) market did sell off a bit in response to this data, the back-up in the [10-Year Treasury yield](#) was not necessarily noteworthy, nor did it signal any newfound concerns on the [inflation](#) front. Inflation expectations, as measured by break-even spreads, were only modestly higher after the jobs report. The bond market and the Fed have been down this road before and will 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.

*Unless otherwise stated, data source is Bloomberg, as of 11/2/18.*

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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.

10- Year Treasury: a debt obligation of the U.S. government with an original maturity of ten years.

Inflation: Characterized by rising price levels.