January 10, 2020

US Real Wage Growth Is Disappearing

- **Job growth and wage growth mildly disappointed expectations…**
- **...and the trends have weakened**
- **Real wage gains are disappearing again**

U.S., Change in Non-farm Payrolls SA (m/m 000s) / UR (%) / y/y wage growth (%), December:
Actual: 145 / 3.5 / 2.9
Scotia: 180 / 3.5 / 3.0
Consensus: 160 / 3.5 / 3.1
Prior: 256 / 3.5 / 3.1 (revised from: 266 / 3.5 / 3.1)

Job growth mildly disappointed expectations including a 14k downward revision to the two prior months. Wage growth also disappointed. **The two key takeaways are that trend job growth has cooled and real wage gains are disappearing.**

Chart 1 shows the trend in job growth. November was a blip by way of the deceleration that was fed by the reversal of strike and Census effects. Recognizing that leaves behind a weaker three month moving average trend for job growth and weaker full year performance in 2019 compared to the stimulus-fed, pre-trade war pace in 2018.

Wage growth fell more than expected to 2.9% y/y from 3.1% and is now down about 1/2% from the peak. Two factors are driving cooler year-ago wage growth. One is resetting to higher year-ago base effects. Two is that the month-ago seasonally adjusted and annualized pace of wage gains is also cooling (chart 2).

Two forces are coinciding that are unfavourable to consumer cash flow and consumption growth. Inflation has risen at the same time that nominal wage growth is cooling. Chart 3 shows what is happening to real (inflation-adjusted) wage growth including consensus expectations for next week's December CPI. The saving rate is high and debt payments are low relative to incomes, but there is once again negligible growth in wages relative to the cost of living.

Where to from here for real wages? Higher energy prices could continue to influence nearer term inflation and further crimp real wages. Thereafter, inflation risks are probably skewed to the downside more so than the risk that inflation gets passed onto nominal wage growth. Rental costs—both through owners' equivalent rent and direct rental payments—are the dominant driver of CPI inflation by far on a weighted contribution to overall inflation basis. As house price growth has turned lower, this points to downside risk to overall inflation with a considerable lag. The net outcome is likely to still leave behind muted real wage growth in year-ago terms over 2020.

Private sector jobs were up by 139k with government hiring little changed (+6k) and focused entirely at the state and local level.

Service sector jobs were up by 140k and goods producing sectors were flat (-1k). Within the goods sector, jobs were up by 20k in construction and down 12k in manufacturing with little change elsewhere. Within services, four categories drove almost all of the gain for decent breadth. Retail added 41k, trade/transport was up 40k, education/health added 36k and leisure/hospitality added 40k. Business services were up 10k.

The unemployment rate was unchanged as the pace of change in the labor force (+209k) was in the ballpark of the rate of change in employment. The household survey registered a job gain of 267k.

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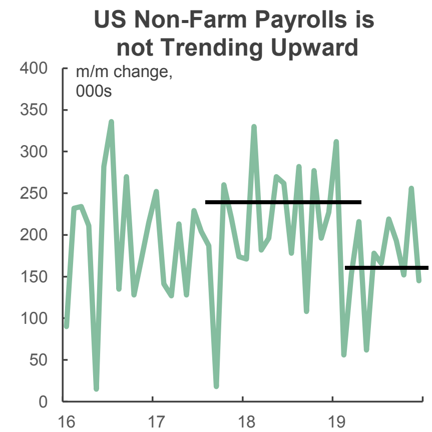
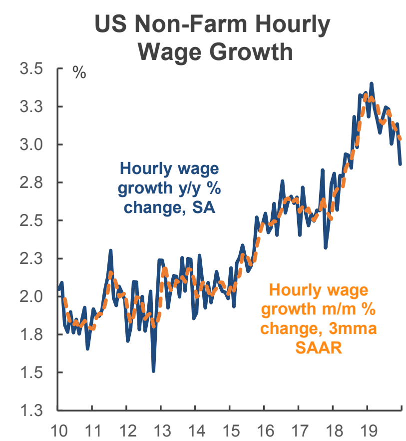


Sources: Scotiabank Economics, BLS.



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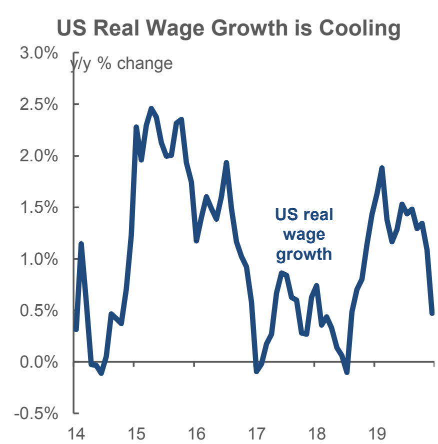

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