

FEBRUARY 2018

# THE INFLATION TANTRUM PART II

## A forensic look at the trigger for recent volatility.

The release of January's wage growth data triggered February's inflation induced selling: the data (supposedly) showed that US average hourly wages had surged (see fig.1). This rise unleashed fears that US inflation was on the verge of resurfacing after years of being tantalizingly absent. Ignoring that both the December 2017 and January 2018 data are provisional, this reasoning has serious holes.

Investors today, are increasingly sensitive to a major "game changer" emerging given not only the rise in US interest rates (and the effects of the US Federal Reserve's "Tapering") but also

should President Trump's tax cuts feed into wage hikes as envisaged.

It is thus not unreasonable that investors focus on the rise in hourly wages as being a harbinger of future inflation, especially as January's annual rise of 2.9% (see fig.2) was the highest in over ten years.

This easy and apparent conclusion, however, is not correct. The average hourly wage, for example, is calculated by dividing the average weekly wage bill by the average hours worked.

## If we look at the two component parts, a totally different picture emerges for two reasons:

1. January's total wage bill actually fell

(see fig.3). This could have been due to January's exceptionally cold winter; maybe there were more absentees from work for which they received no (or reduced) pay.

2. The hours worked fell even more (see fig.4). Again this could reflect the cold winter.

The point is, that the average hourly wage rate rose **only** because the hours worked fell more than the total wage bill. This is not to deny that average wages are trending higher. But, January's spike, does not make a case for runaway inflation.

Tonight's US inflation data may indeed show a rise, but if so, a surging wage bill will unlikely be the cause.

Fig.1: Average hourly wage rate

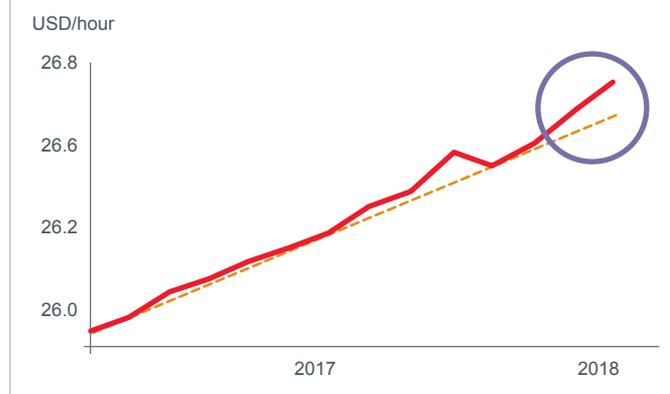


Fig.2: Increase in wage growth

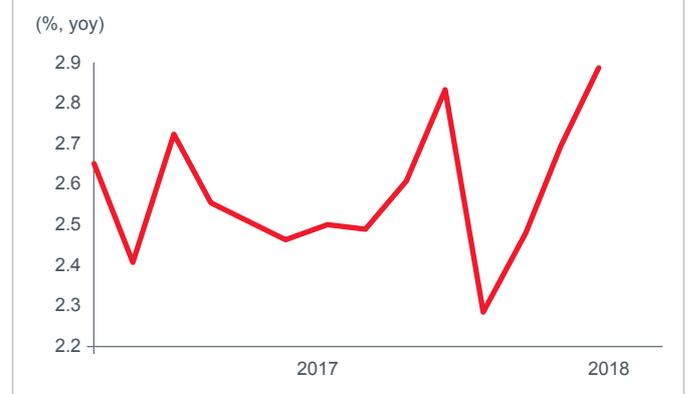


Fig.3: Weekly wages earned

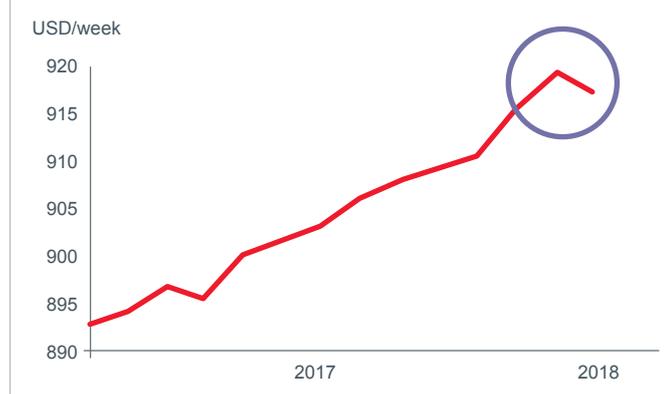
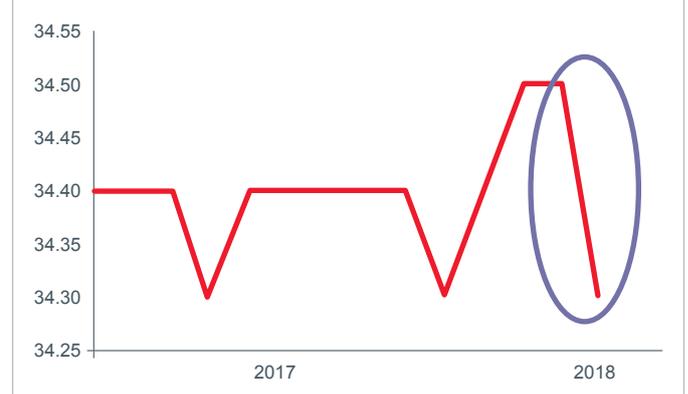


Fig.4: Hours worked per week





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