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Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

The curious strength of emerging economies, etc.

Global Risk Watch Vol.31
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3. Highlight of Indicator for this Month

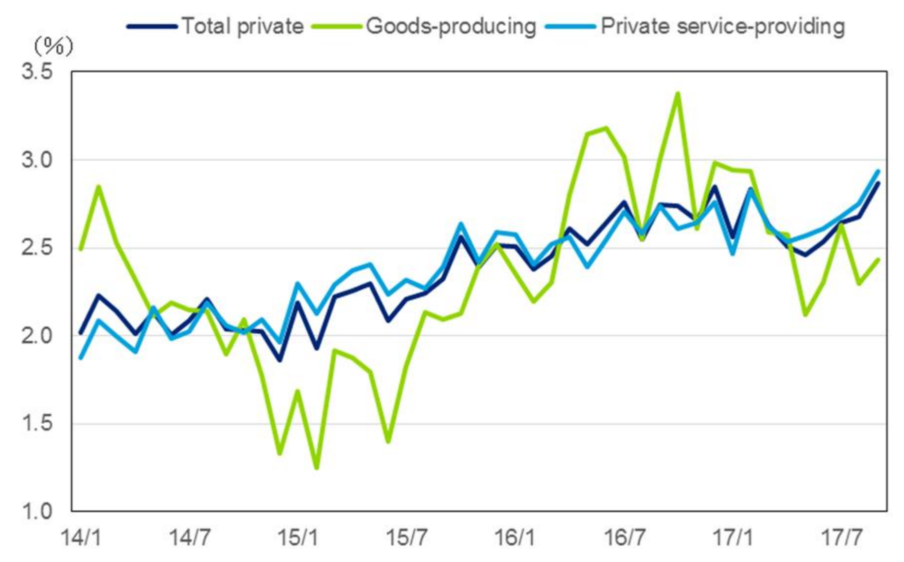
 # Rising wages pushing inflation acceleration (Toshikazu Kumagai, Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

Currently in the US, the expansive average hourly wage hikes are grabbing attention. September's average hourly wage was up +2.87% YoY, making this the highest growth rate since 2009. In addition, July and August's data have been revised upward. Wages have also been rising against the inflation rate, showing bolstered consumer buying power – which may consequently cause a rise in consumer spending. From the perspective of raised demand for goods and services, which is also connected on companies' decision to raise prices or not, it is thought that this situation may invite demand-pull inflation. Whether or not we continue to see this trend in inflation rate hikes is important in order to understand the FRB's potential rate rises in the coming year.

Looking at average hourly wages by industry, in contrast to the anemic movement in the industrial goods industry, we can see a large increase in the upward trend of wages in the service and retail sectors (Figure 1). Some have voiced concern that September's average wage data is influenced by the special circumstances of the recent hurricanes – whereby low wage leisure sector employment was sharply reduced. However, when one takes into account the revised September and August numbers we can see wages' upward momentum.

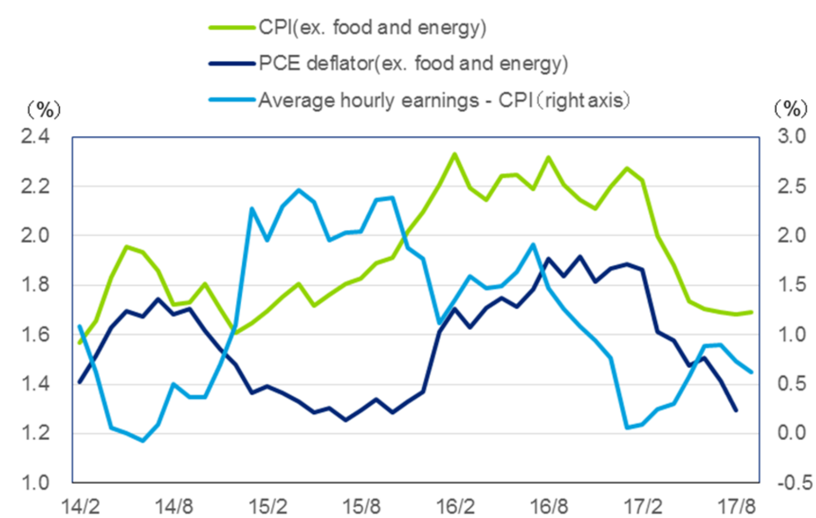
In addition, it is true that when we look at the movement of the CPI growth rate (which accounts for average hourly wage rate raises as real average hourly wages) we can see that it is somewhat mitigated by the concurrent rise in energy prices. However, we are still able to see a gradual real average hourly wage rises when we look from the beginning of the year. When we compare the real average hourly wage growth rate to the movement of the core CPI (All Items Less Food and Energy) and the core PCE deflator (personal expenditure excluding food and energy) we can see that the these indicators are lagging about 6 months to 1 year behind the increase in average hourly wages but that commodity prices are starting to rise as well (Figure 2). This trend will continue to be of interest as we ask when the effects of average hourly wage increases on CPI/PCE deflator will materialize and for how long/to what degree will this trend continue?

Chart 1 : Average Hourly Earnings



**(Source) Source: U.S. Bureau of Labor Statistics Latest Numbers, Deloitte Touche Tohmatsu LLC*

Chart 2 : Price Index and Average Hourly Earnings



**(Source) Source: U.S. Bureau of Labor Statistics Latest Numbers, Bureau of Economic Analysis, Deloitte Touche Tohmatsu LLC*