First Trust
Monday Morning OUTLOOK

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Wage Growth Steps Up

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Friday's jobs report finally included what appears to be evidence of the long-awaited acceleration in wage growth.

Average hourly earnings grew 0.4% in August, which meant they were up 2.9% from a year ago, the largest 12-month increase since the economic recovery started in mid-2009. By contrast, these wages were up 2.6% in the 12-months ending in August 2017. Moreover, this measure of wages doesn't include extra earnings from irregular bonuses and commissions, like those paid out since the tax cut was passed late last year.

Total wages, which factors in both average hourly earnings as well as the total number of hours worked, are up 5.1% in the past year, meaning consumers have plenty of earnings to keep increasing spending.

Nonetheless, many still argue that the 2018 corporate tax cut didn't help workers. Nothing could be further from the truth. In December 2017, figures on average weekly earnings as well as private payrolls suggested private-sector workers were earning wages at a $6.0 trillion annual rate. In August, those total wages had increased to a $6.2 trillion annual rate – a boost of $200 billion per year. By contrast, corporate profits - which have also grown rapidly - were up by just $100 billion annualized from the end of 2017 through the second quarter. Workers have taken home two times more than companies!

When hit with this data, the anti-tax cutters argue that this increase in wages has been concentrated at the top of the pay-scale. The rich are getting richer and the tax cuts haven't helped lower to middle income workers. Guess what? This isn't true, either.

Usual earnings for the median full-time wage & salary worker grew 2.0% in the year ending in the second quarter this year. But these earnings grew 3.9% for workers at the bottom 10th percentile, while workers at the top 10th percentile had their usual earnings grow only 1.2%. Usual earnings for people who never finished high school are up 7.6% in the past year, faster growth than for any other educational category.

Put it all together and we have a labor market that is already tight and set to get tighter. Back in June, the Federal Reserve projected an average unemployment rate of 3.6% in the fourth quarter of this year and 3.5% in the fourth quarter of 2019 and 2020. The projection for this year sounds about right, but we're forecasting a jobless rate of 3.2% by the end of 2019 and 3.0% in 2020. Either way, wages are likely to keep growing at an accelerating pace in the next few years.

That means the Fed will likely remain more aggressive with their rate hikes than the market is now projecting, but don't fret. Even with our more aggressive forecasted path of two more 25 bps rate hikes this year and four next year, the Fed will still not be "tight."

Tax cuts and deregulation have turned the Plow Horse Economy into a Kevlar Economy for the foreseeable future. And if we get trade deals that reduce tariffs along with some real focus on limiting government spending, the strength of this economy could make Superman jealous.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-10 / 2:00 pm	Consumer Credit– Jul	$14.0 Bil	**$13.8 Bil**		$10.2 Bil
9-12 / 7:30 am	PPI – Aug	+0.2%	**+0.2%**		0.0%
7:30 am	"Core" PPI – Aug	+0.2%	**+0.2%**		+0.1%
9-13 / 7:30 am	Initial Claims – Sep 8	210K	**208K**		203K
7:30 am	CPI – Aug	+0.3%	**+0.2%**		+0.2%
7:30 am	"Core" CPI – Aug	+0.2%	**+0.2%**		+0.2%
9-14 / 7:30 am	Retail Sales – Aug	+0.4%	**+0.3%**		+0.5%
7:30 am	Retail Sales Ex-Auto – Aug	+0.5%	**+0.4%**		+0.6%
7:30 am	Import Prices – Aug	-0.2%	**-0.2%**		0.0%
7:30 am	Export Prices – Aug	0.0%	**-0.2%**		-0.5%
8:15 am	Industrial Production – Aug	+0.3%	**+0.2%**		+0.1%
8:15 am	Capacity Utilization – Aug	78.2%	**78.1%**		78.1%
9:00 am	Business Inventories – Jul	+0.6%	**+0.6%**		+0.1%
9:00 am	U. Mich Consumer Sentiment- Sep	96.6	**96.7**		96.2