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Global Wages Rise and May Keep Inflation Higher for Longer

CONNECTIVES
MARCH 2023

In recent news, Walmart, the largest private employer in the world with over 2 million employees, announced that it would increase its minimum wage to $14 an hour—lifting its average hourly wage to $17.50 an hour. Walmart also expanded its on-going education programs for its workers financing college degrees and certifications, and to meet their need for truck drivers the company announced certificate and training programs with a starting salary of around $100,000 a year.[1] In a similar fashion, Amazon, the second largest employer in the world, announced a $1 billion dollar plan to attract blue-collar workers with wage increases as well as attractive training and benefit packages last fall.[2] At the same time, the company has slashed management jobs and may delay the construction of its second headquarters in Washington, D.C. to reduce spending.[3]

US employers are not alone in increasing wages and benefits. In Japan, Honda granted the largest wage hike since 1991, granting union workers a 5% pay increase. Toyota too – gave way to union demands for wage and bonus increases.[4] The largest union organization representing 18 unions and 240,000 workers won an average wage increase of 5.28%.[5] In Europe, hourly and negotiated wages will increase in 2023 by an average of 12% versus the 5% rise in 2022.[6] In both Europe and Japan, unemployment rates are at historic lows making it more costly for companies to attract workers.[7]

1 Source: Walmart. https://corporate.walmart.com/newsroom/2023/01/24/continuing-to-strengthen-our-jobs-and-invest-in-our-people.

2 Source: https://www.aboutamazon.com/news/workplace/amazon-invests-nearly-1-billion-in-increased-wages-for-operations-employees

3 Source: Amazon layoffs: Company to cut 9,000 more workers (cnbc.com) as of March 20, 2023. In November 2022 Amazon announced it would cut 18,000 jobs mostly in management. And in March, the company announced another 9,000 job cuts from advertising, human resources, and cloud computing services.

4 Source: BBC News February 23, 2023.

5 Source: Reuters. https://www.reuters.com/world/us/us-layoffs-hit-two-year-high-jan-tech-slashed-thousands-jobs-report-2023-02-02/

6 Source: https://www.eurofound.europa.eu/news/news-articles/new-data-2023-minimum-wage-hikes-struggle-to-improve-purchasing-power

7 Source: ECB, Bank of Japan, and Eurostat as of February 2023.

The impact of the global pandemic and lockdowns may have lingering effects on employment data. As developed markets implemented lockdowns, retail, entertainment, tourism, and service sector workers suffered the biggest layoffs all while white collar jobs boomed. That trend maybe unwinding with implications for consumer demand. Amazon, Walmart, and PepsiCo are looking to attract hourly workers while shedding excess white-collar workers. In the US, technology companies have announced layoffs for around 100,000 workers over the past few months.[8] For the Federal Reserve, more money in hourly workers pockets may make taming inflation more challenging.

[8] Source: Reuters. https://www.reuters.com/world/us/us-layoffs-hit-two-year-high-jan-tech-slashed-thousands-jobs-report-2023-02-02/.

In early 2022, Meketa revisited the history of **stagflation** and its impact on investment returns. Stagflation is a relatively rare economic condition where inflation rises while growth stalls in a toxic mix that weights on stock and bond returns alike. During this period in the 1970's and early 1980's, the US economy oscillated between high inflation, growth, and recession. Many variables contributed to the period of stagflation including an energy crisis, the end of the US dollar's gold convertibility system, and the inflation adjustment of wages for workers. Cost of living increases for hourly workers supported consumer demand even as the Fed tried to fight inflation with higher interest rates. But even as workers saw their wages rise to off-set inflation, the unemployment rates also rose contributing to weak economic growth. Investors found few places to hide with inflation sensitive assets like natural resources, TIPS, and commodities offering some of the only protection.

While history has not repeated itself, it is noteworthy wages have been on the rise since the on-set of the global pandemic in early 2020.[9] The US labor market remained strong in February with the unemployment rate at 3.6%. Wage gains remain below the latest CPI of 6.0%[10] with total hourly earnings rising 4.6% year-on-year. Non-supervisory and production workers hourly wages rose 5.3% year-on-year.

[9] Source: Bureau of Labor Statistics as of March 10, 2023.

[10] Source: Bureau of Labor Statistics as of March 14, 2023.

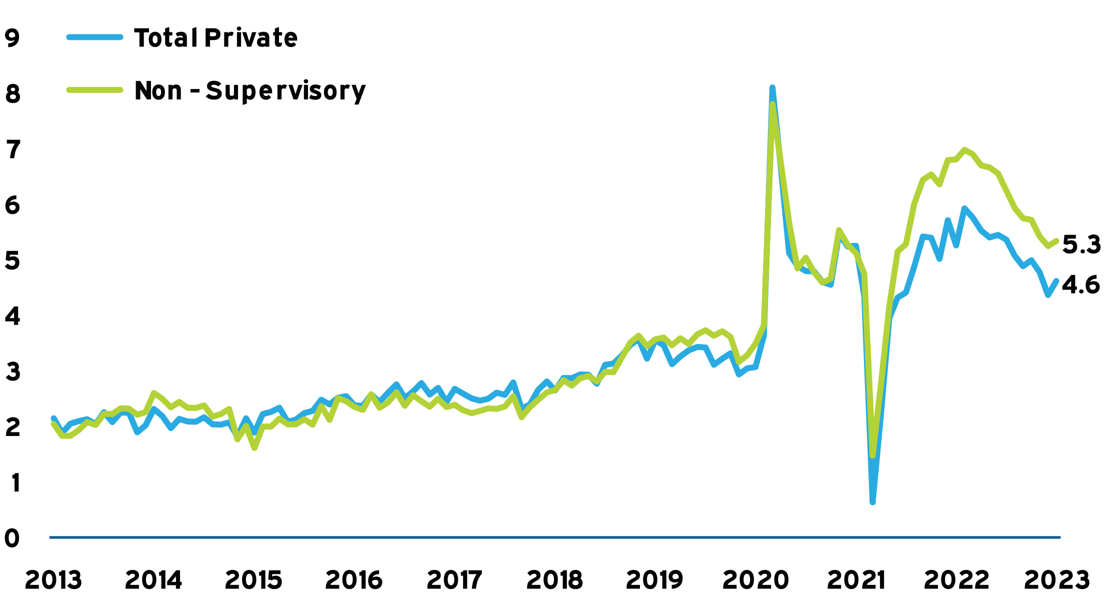

FIGURE 1
Annual Average Hourly Earnings(%)

Source: FRED and Bureau of Labor Statistics as of March 10, 2023. Non-supervisory hourly wages include workers in productive capacity.

When asked by a reporter about potential concerns on rising wages and the wage spiral, Chair Powell replied, "Once you see it [wage-spiral] you have a serious problem."[11] The Federal Reserve cannot allow wage increases to become widespread due to the sticky nature of price inflation, which has proven to be less responsive to higher interest **rates**. Powell opined in his opening statement at the February 1, 2023 press conference that interest rates will be higher and persist longer than markets are expecting. He indicated that demand for workers remains quite strong and tighter labor markets may help wages rise over time. For institutional investors, higher interest rates in the US and in developed markets may mark a shift in asset class expected returns going **forward**.

[11] Source: FOMC press conference transcript February 1, 2023.

For the foreseeable future, global inflation, tight labor markets, and the potential for a recessionary environment remain at top of mind for investors.

To explore the underlying themes of this Connectives update, please visit the thought leadership section of our website and explore our:

- → **4 Themes for 2023 Global Macroeconomic Newsletter**
- → **Stagflation White Paper** and
- → **2023 Capital Market Expectations**

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