

## One step forwards, two steps back

No matter how fast the US economy grows, or how low its unemployment rate falls, wages remain muted - it really is different this time



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### US jobs report - wages disappoint

At the end of last week, we repeated our view that things really have changed in developed economies such as the US. Most notably, when it comes to inflation and wages. All the signs of price pressures are there. Job switching in the JOLTS survey, skills shortages in the NFIB survey, underemployment in the jobs report itself. If, when all of these things are screaming "wage pressure", the rate of wages growth comes in at only 2.6%YoY, with the previous month's number also revised down to 2.6%, it is time to accept that the elasticity of wages to all these perfectly reasonable measures of wages pressure, has substantially weakened, maybe permanently.

In fairness to financial markets, it seems as if this message has already been learned. Market reaction to the wages weakness, despite a moderate bounceback in the employment part of the report (+164K), has been very muted. The dollar shrugged off the jobs report, ending slightly stronger after some very temporary weakness, 10Y US Treasury yields dipped, recovered, and then finished up on the day, though still no nearer to 3.0% than they were last week. Stocks treated the report with a big yawn.

With payrolls and the FOMC out of the way, there isn't much on the calendar to take us back to 3% any time soon, unless bond issuance (there is a lot this week in the US) fails to attract a bid.

## We can still be friends, right?

The US has left China without a trade deal. The lack of any market response to the news may show how little anyone believed in the chances of a deal anyway. Both sides have agreed to further talks, but the demands made by the US seem to show that the hawks, (Lighthizer, Navarro) are running this show, not the doves (Mnuchin). The US demands call for a reduction in the bilateral deficit with China (which is about \$340bn) of \$200bn. Perhaps they were hoping to come away with the \$100bn reduction that had been the previous demand. Maybe China is learning the Trump negotiation tactic of asking for the moon, but settling for far less, and deciding to call his bluff. Who knows. One thing is apparent, China is in no mood to be bullied by the US over trade. We take a step nearer to trade-war with this outcome. That could take US Treasury yields right back from the 3% level, hit stocks negatively, though the USD impact is not as clear - we would like to say it would be negative, but we don't believe it is that simple, and in a generalised risk-off environment, the USD could actually do quite well.

## Day ahead

It is very quiet in the G-7 region today, with vacations in the UK. Factory orders in Germany are expected to bounce after their sharp dip last month, though may not deliver full clarity on the recent European slowdown.

It's not too much more exciting in the Asia-Pacific region. Australian NAB business confidence will likely nudge higher from its March 7.0 reading, though the trend is basically flat - so nothing really to do here.

Ahead of Malaysia's election on Wednesday (we anticipate no change in government), there are foreign reserve figures today. Taiwan's trade figures for April are also due. Earlier in the month, Korea released some better than expected figures (ex-shipping) with semiconductor exports doing very well, so that could be a harbinger of better export data from Taiwan.

And Indonesia's 1Q18 GDP is not expected to differ materially from the 5.19%YoY rate delivered for 4Q17. Though let me express my incredulity as to the lack of volatility in these numbers. I could barely draw a line that straight with a pencil. Is there genuine news in these figures? I don't think so.

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