

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



Source: Shutterstock

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.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s).

as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.