

How Long Will Wage Restraint Persist?

Prospects For Wage Inflation in Advanced Economies

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Agenda

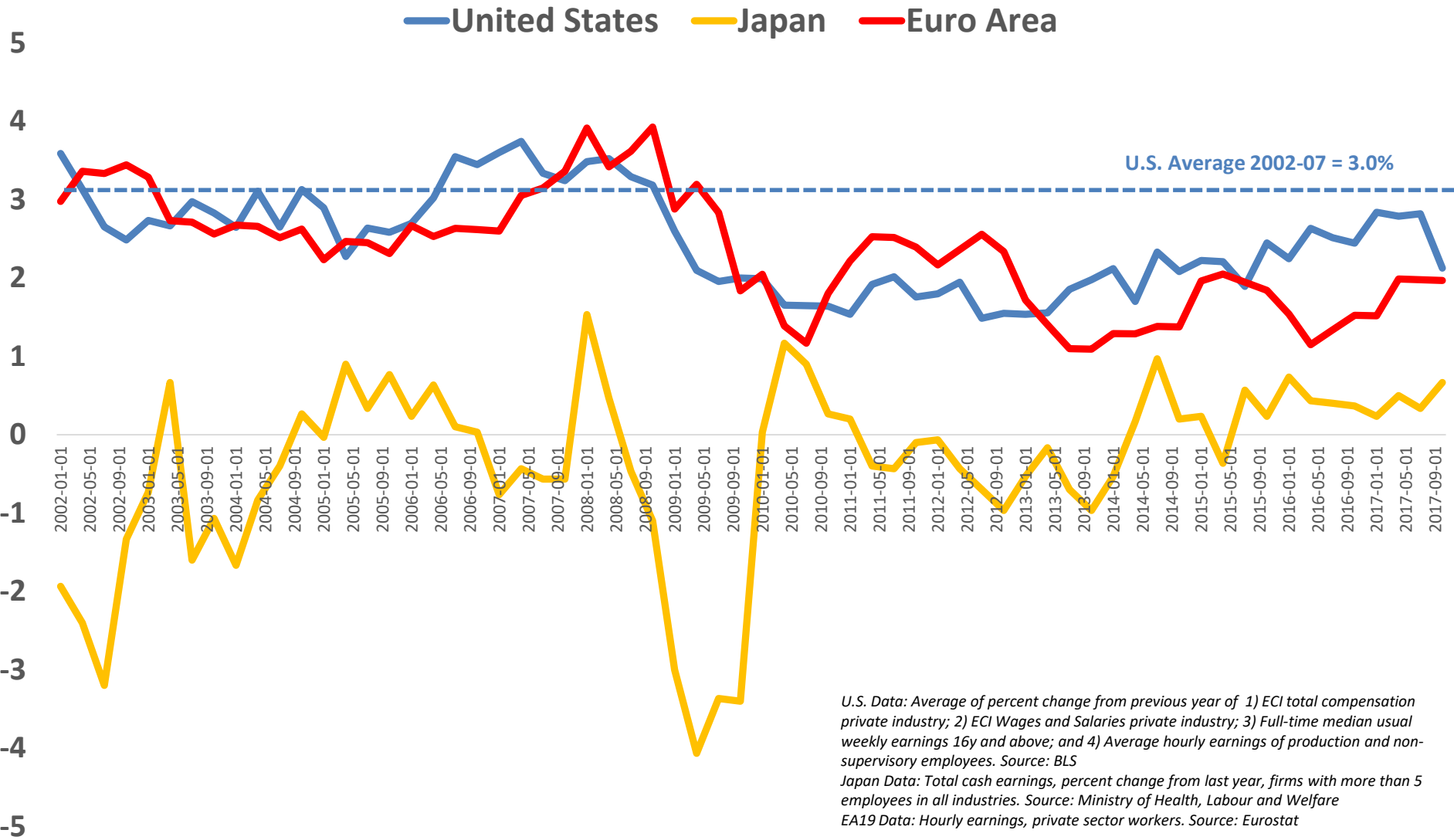


- I. Wage Inflation Weak Despite Standard Indicators Suggesting Tight Labor Markets**

- II. Broader Measures of Labor Slack and Underemployment Now Diverging**

- III. Conclusion**

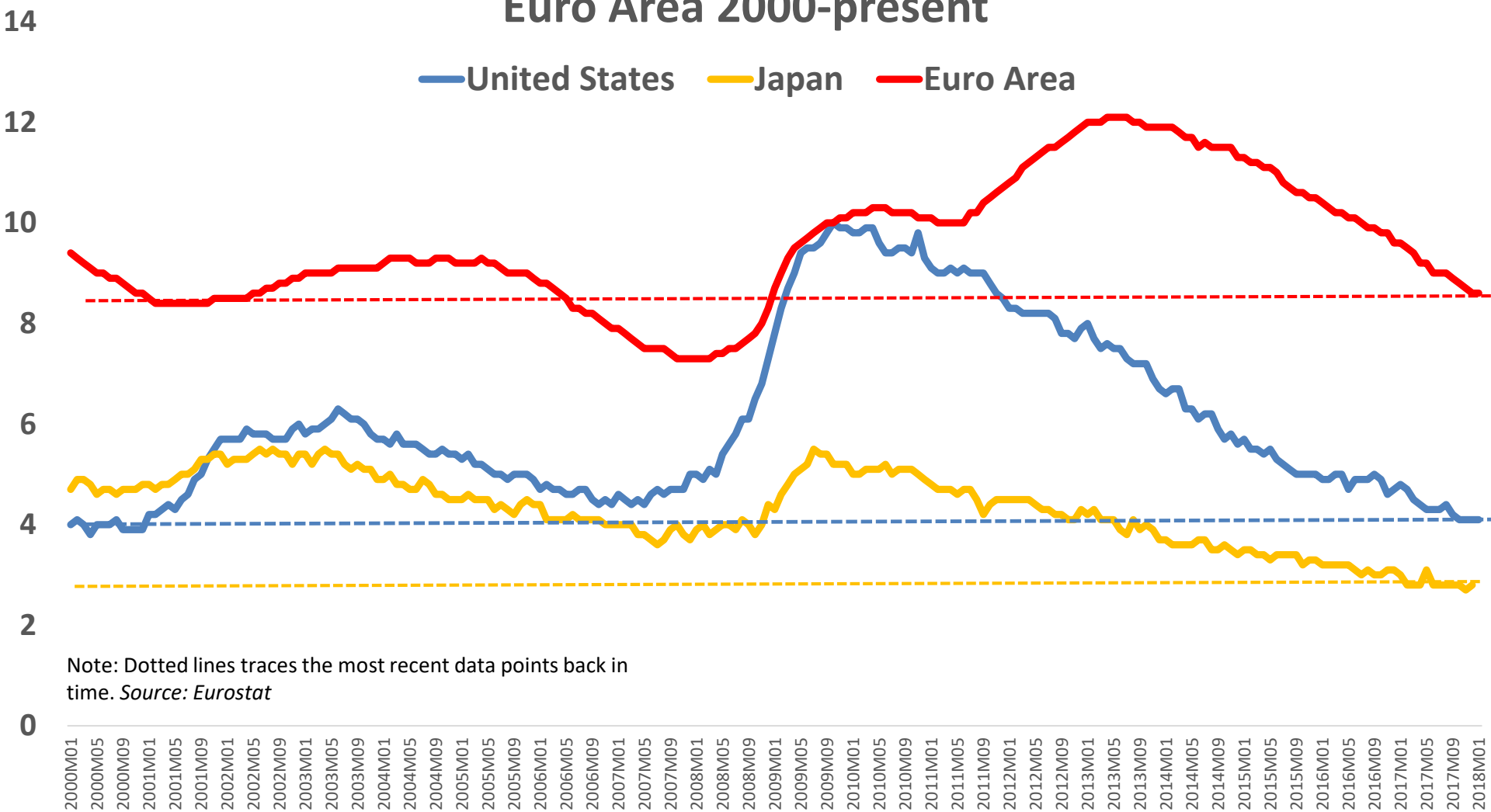
I. Nominal Wage Growth Has Been Weak Post-GR



I. Yet Unemployment is Low – Even in EA



Standardized Unemployment Rates in US, Japan and Euro Area 2000-present

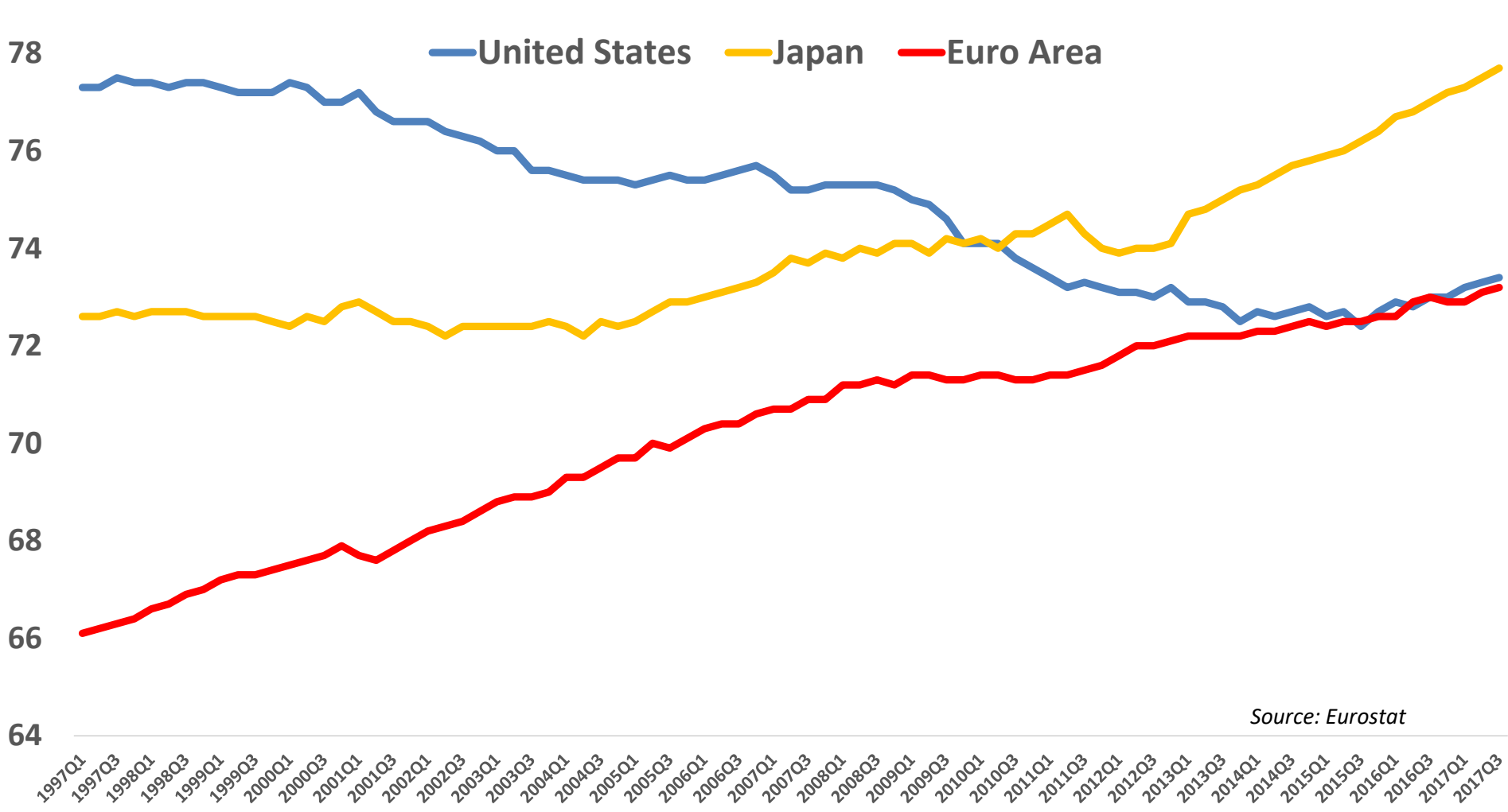


Note: Dotted lines traces the most recent data points back in time. Source: Eurostat

I. And LFP is Now Rising Everywhere



Labor Force Participation 15-64y, Total Population Q1 1997-Q3 2017



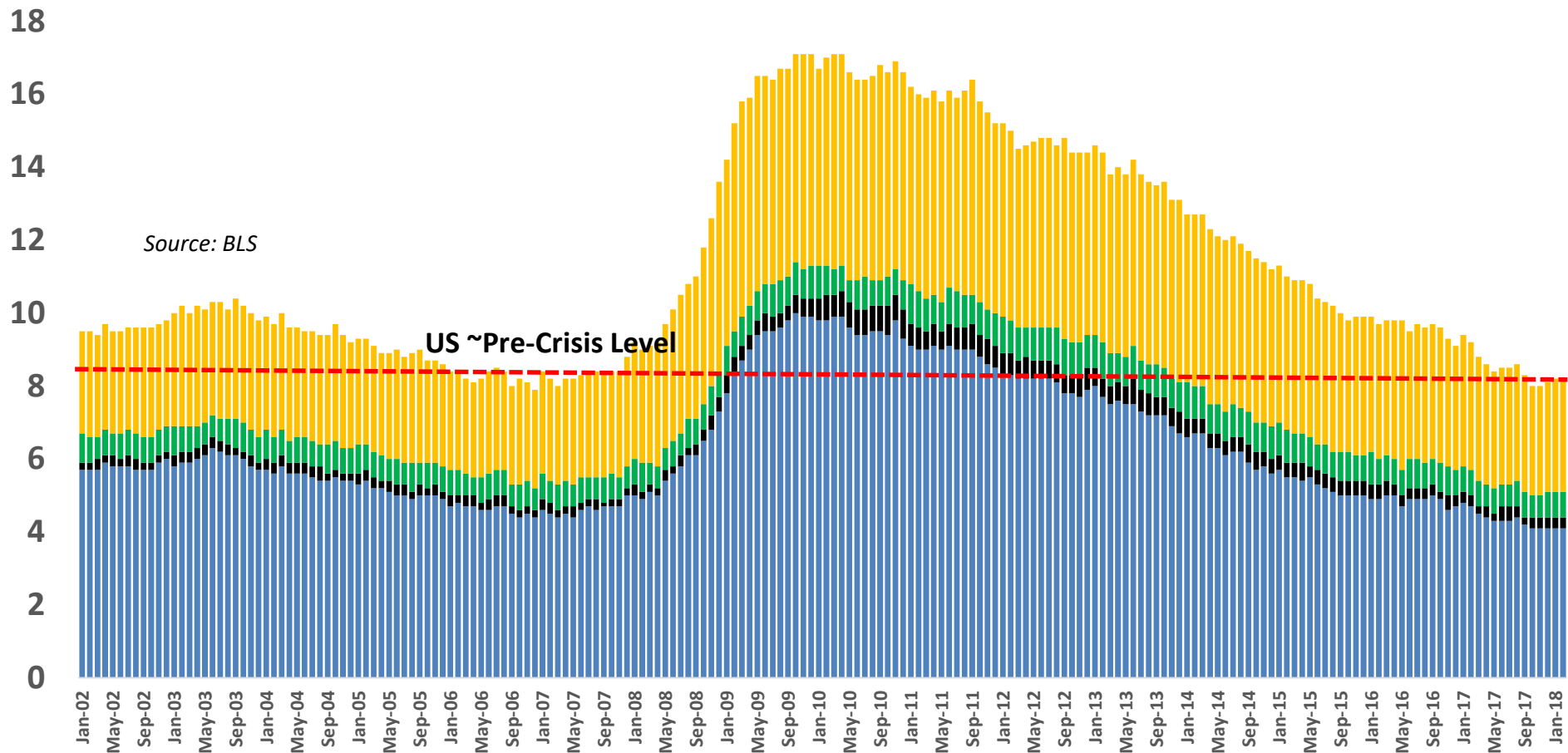
Source: Eurostat

II. U6 Broad US Underemployment Measure Has Now Reached Pre-crisis Levels



US U6 Unemployment Rate Jan 2002 - Feb 2018

- Unemployment Rate
- Discouraged Workers
- All Other Marginally Attached Workers
- Part-Time For Economic Reasons

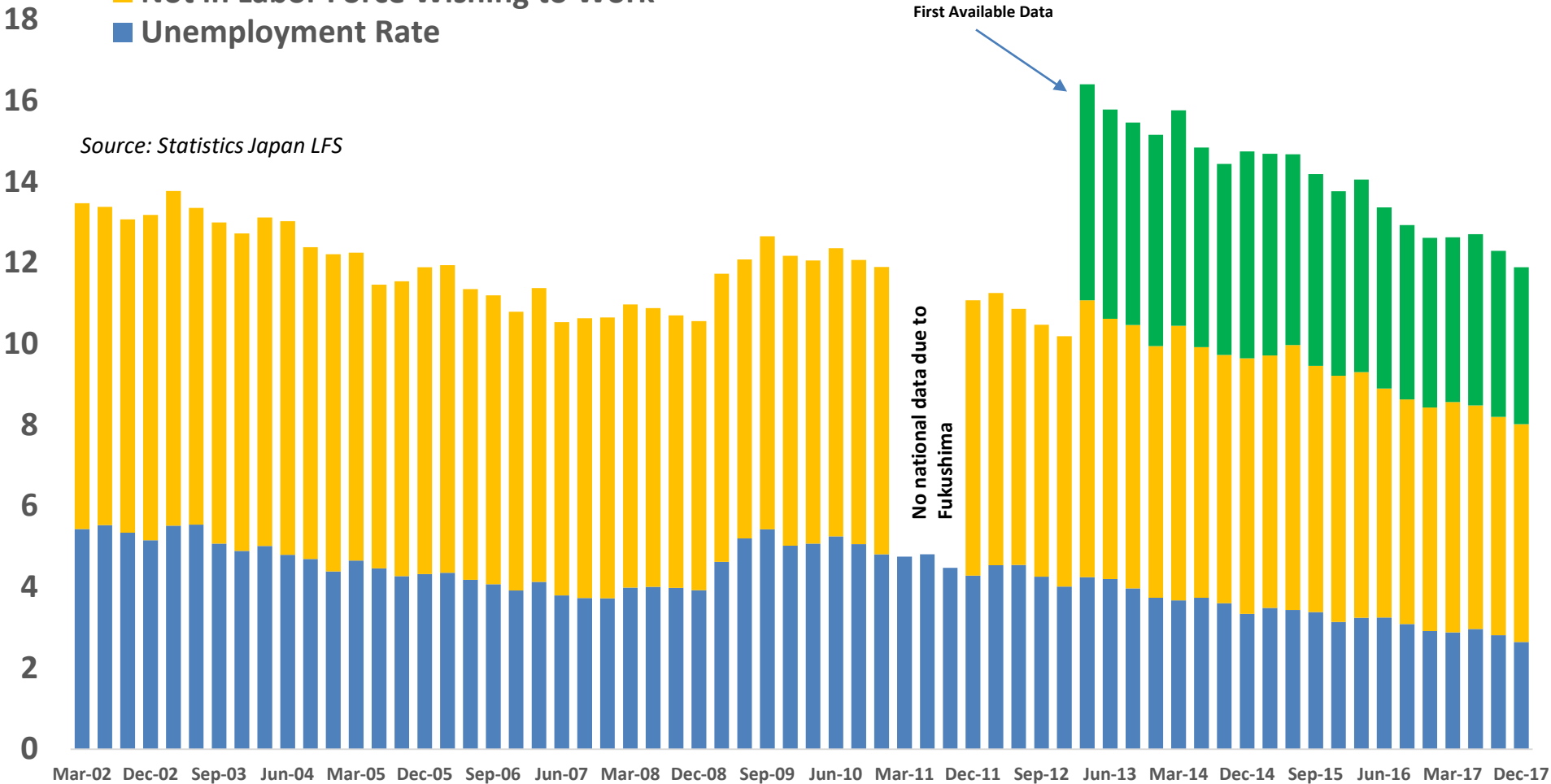


II. Broad Japan Underemployment Measure Has Been Falling, But From a High Level



Japan "Approximate U6 Definition Unemployment Rate" Q1 2002 - Q4 2017, Percent

- Non-Regular Employee Wishing to Change Job But Not Obtaining a Job as a Regular Employee
- Not in Labor Force Wishing to Work
- Unemployment Rate



II. Broad EA Underemployment Measure Remains Elevated

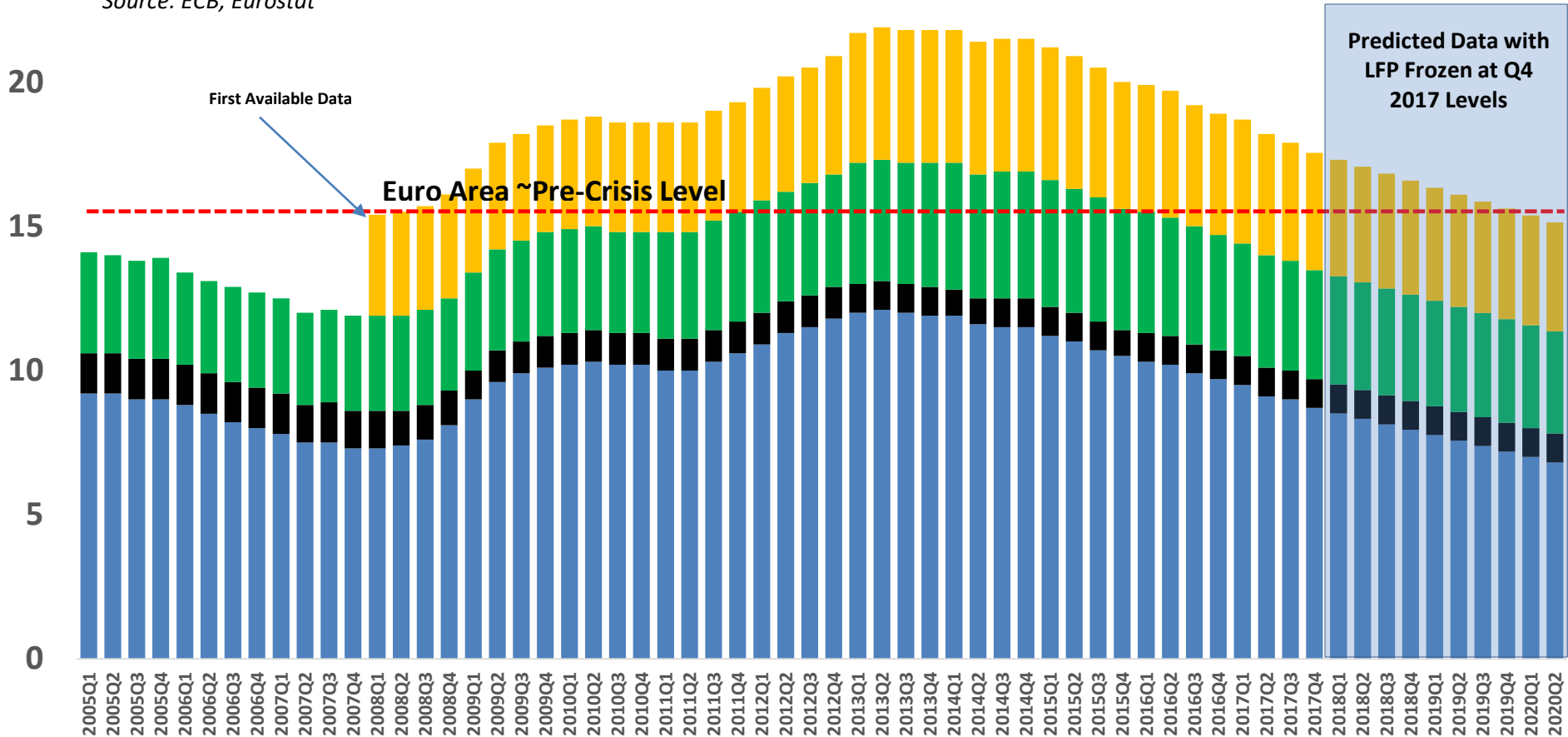


Euro Area "U6 Unemployment Rate ECB Definition" Q1 2005 - 2020Q2(p)

- Under-Employed Part-Time Workers
- Persons Available to Work But Not Seeking
- Persons Seeking Work But Not Available To Work
- Unemployment Rate

25

Source: ECB; Eurostat



II. Underemployment Levels Diverging



US: Measured underemployment rose significantly during crisis, but is now approaching pre-crisis lows (earlier levels during dot-com bubble unknown). **This would suggest higher US wage growth is imminent.** Yet, several issues cause uncertainty;

- Slow productivity growth – if productivity growth is 1 percent p.a., why should wages rise any faster?
- Declining U.S. unionization – perhaps, but private sector unionization was already very low (~10 percent) in the late 1990s
- Non-compete clauses and firm concentration/ local labor monopsony power
- Rise of gig economy, temp agencies and outsourced business services slow wage growth in all but the super-star firms

Japan: Measured underemployment did not rise much during the crisis, and while now falling appears still to be at a significantly higher level than in the United States – 12 vs. 8 percent. **This would suggest that wage growth in Japan will remain subdued in the near term.** Additional uncertainty arise from;

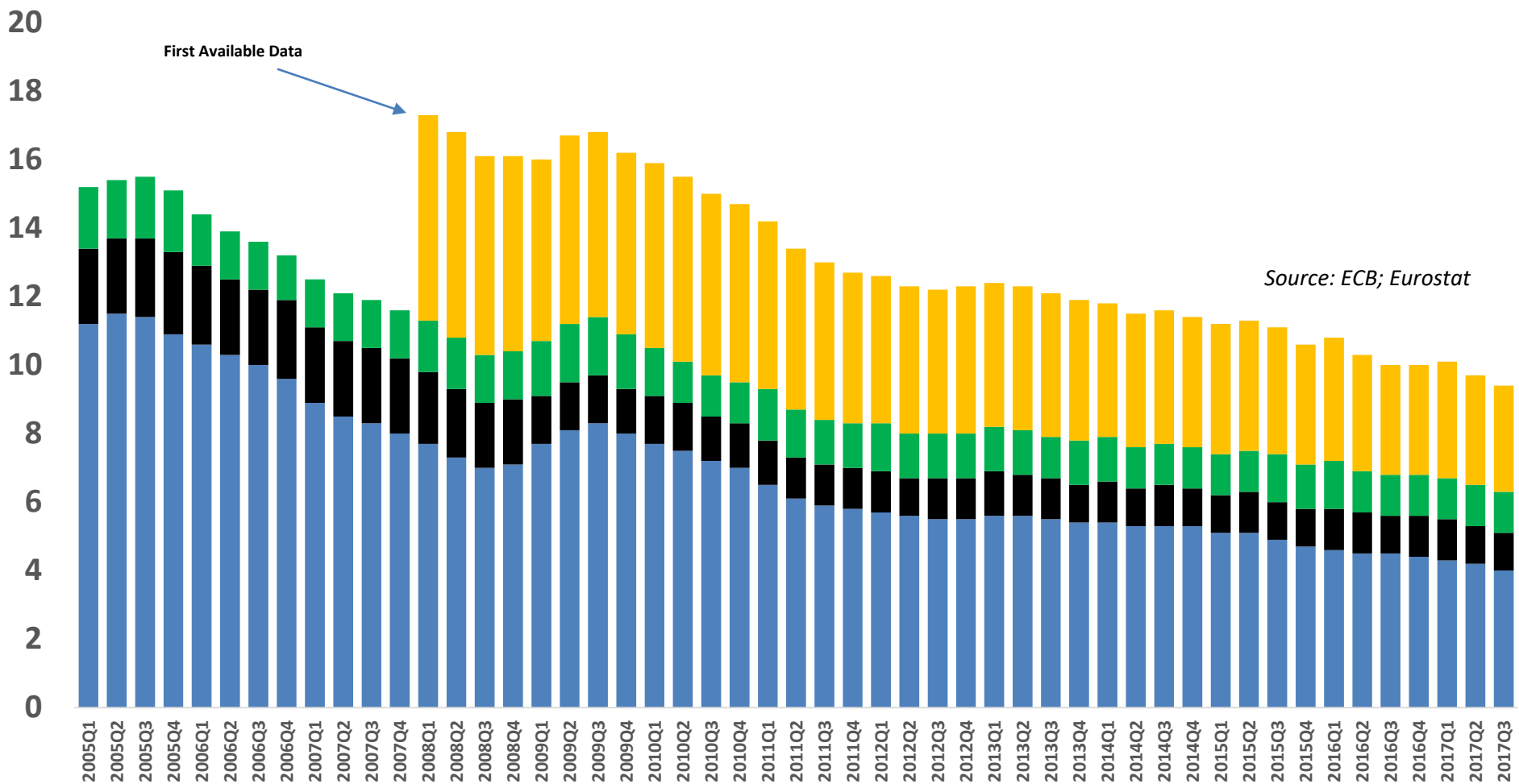
- “Deflationary mindset” among consumers and firms
- Declining total and working age population

II. Underemployment Levels Diverging



Germany "U6 Unemployment Rate ECB Definition" Q1 2005 - 2017

- Under-Employed Part-Time Workers
- Persons Available to Work But Not Seeking
- Persons Seeking Work But Not Available To Work
- Unemployment Rate



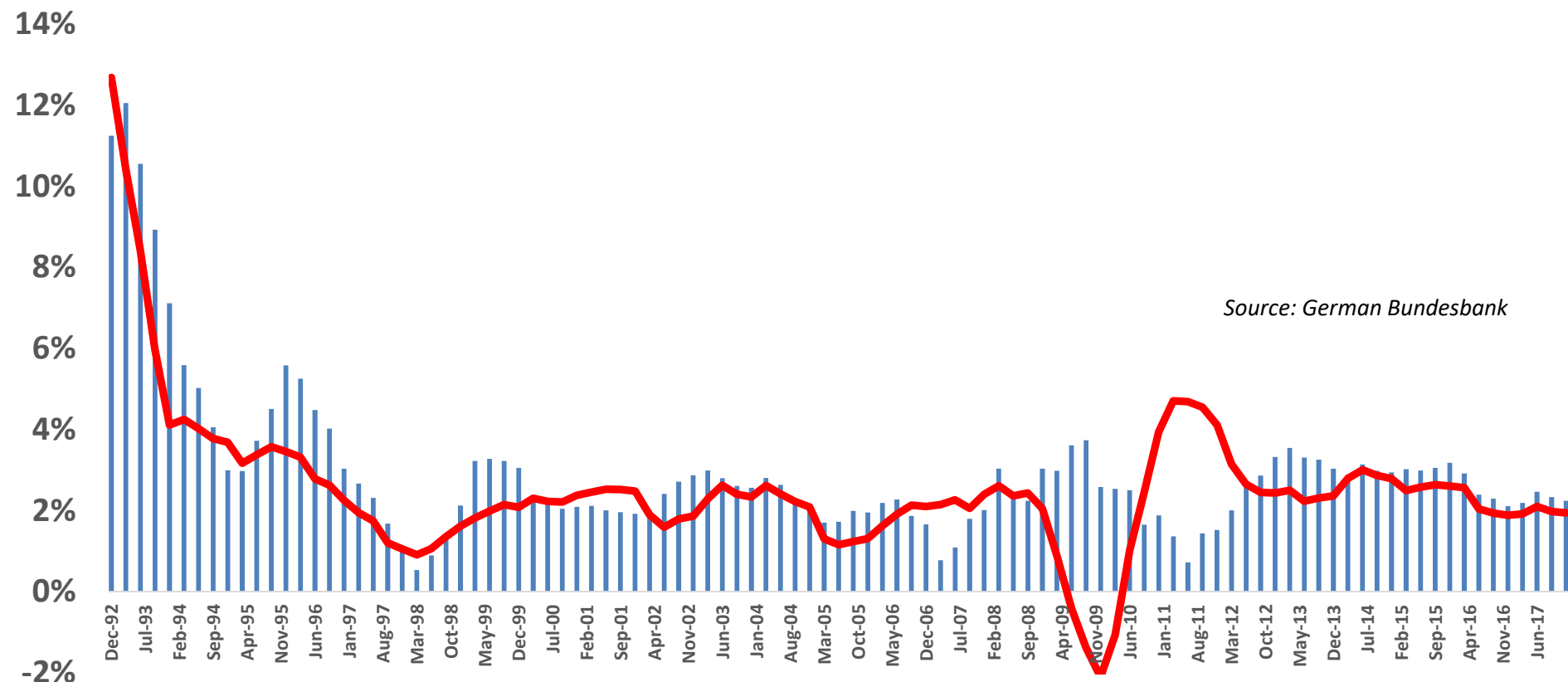
II. German Wages Yet to Pick Up, But....



German Negotiated and Take Home Wages in the Production Sector incl. Construction, Percent Change over Previous Year Q4 1992- Q4 2017

■ Negotiated wages, including holiday pay, christmas bonus, other regular special payments and capital formation and employer pension contributions

— Wages and salaries, actual take home pay



Source: German Bundesbank

III. Concluding Remarks



- 1. Underemployment levels suggest U.S. wage inflation should soon accelerate, but remain weak in both Japan and Euro area**
- 2. German workers will probably only push euro area wage growth up marginally in coming years**
- 3. Both BoJ and ECB look likely to continue to struggle to reach their inflation targets and – despite strong GDP growth – change monetary policy only gradually**