

Generationally low unemployment but stagnant wages. What gives?

Chart of the Month - June 2017

The Federal Reserve recently hiked interest rates for the fourth time since December 2015. The Federal Reserve is charged with two mandates – 1) doing its best to foster full employment and 2) combating inflation. With unemployment at 4.3%, a level not seen since March 2001, the Fed’s job on employment is fulfilled. The question of the day is whether they have a handle on inflation.

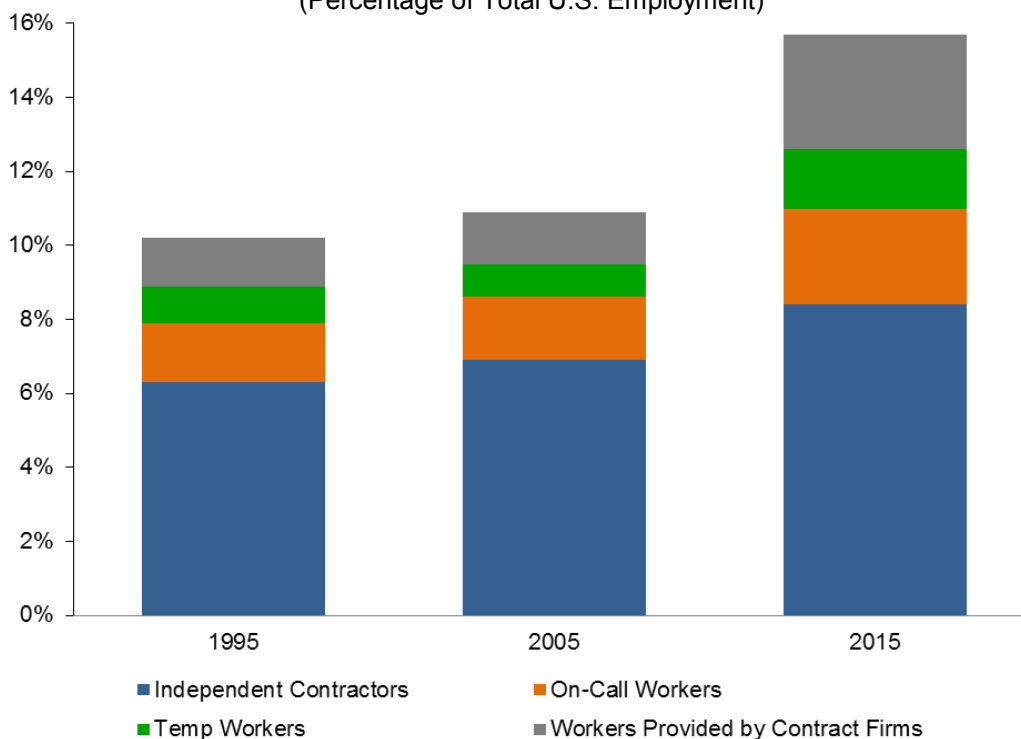
Unemployment Rate vs. Wage Growth
(January 1985-May 2017)



Data Source: Federal Reserve Bank of St. Louis Economic Data. Unemployment Rate is the Civilian Unemployment Rate. Wage Growth is the annual growth of Average hourly earnings of production and nonsupervisory employees.

As you can see, each time the economy has reached this level of unemployment over the past 30 years there has also been a rise in the level of worker pay. Market strategists often view 4% wage growth as a marker to expect the Federal Reserve to be more aggressive in raising rates. This time though, wage growth has been relatively contained with wages on a pace to grow at a 2.4% annual rate. There has been debate in the market as to why this is the case and whether it will continue.

The Growth of Alternative Working Arrangements (Percentage of Total U.S. Employment)



Data Source: The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015, Lawrence F. Katz and Alan B. Krueger, September 13, 2016.

We suspect that the answer may lie in how the nature of work has changed over the past generation. As this chart shows, the use of temporary and contract workers has increased which has kept a lid on wages. If this trend continues, the argument can be made that inflationary inducing wage growth will not be a problem, and the Federal Reserve will not be prompted to aggressively raise rates. We believe interest rates will stay low relative to their historical average and are monitoring wage growth to inform our view.

Market Performance*

Index	May 2017	Year to Date (1/1/17-5/31/17)	One Year (6/1/16-5/31/17)
S&P 500 Index	1.4%	8.7%	17.5%
MSCI EAFE Index	3.7%	14.0%	16.4%
Barclays U.S. Aggregate Bond Index	0.8%	2.4%	1.6%
JP Morgan Global Aggregate Bond Index	1.5%	4.2%	0.8%
Bloomberg Commodity Index	-1.3%	-5.1%	-2.4%
Gold (\$/oz)	0.1%	10.1%	4.4%

*Data Source: Bloomberg

Past performance is no indication of future results. All investments, including those provided by WIP, involve risk of loss. Investors should consider these risks carefully before investing. Accordingly, investors may receive back less than originally invested. This presentation provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. This presentation may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements. Views regarding the economy, securities markets or other specialized areas are the opinion of our firm and, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor. Wellesley Investment Partners, LLC is a wholly owned subsidiary of Wellesley Bank. Products and services made available through WIP are not insured by the FDIC or any other agency of the United States or by the Share Insurance Fund and are not deposits or obligations of, nor guaranteed or insured by, any bank or bank affiliate.

Market performance is provided for reference purposes only. Reference to an index does not imply that Wellesley Investment Partners will achieve a similar return or level of risk. Indexes listed are total return unless otherwise stated. The composition of an index does not reflect the manner in which Wellesley's strategies are constructed and so the returns, holdings, correlations and concentrations, among other characteristics, may differ materially and are subject to change over time. Investors cannot invest directly in an index.