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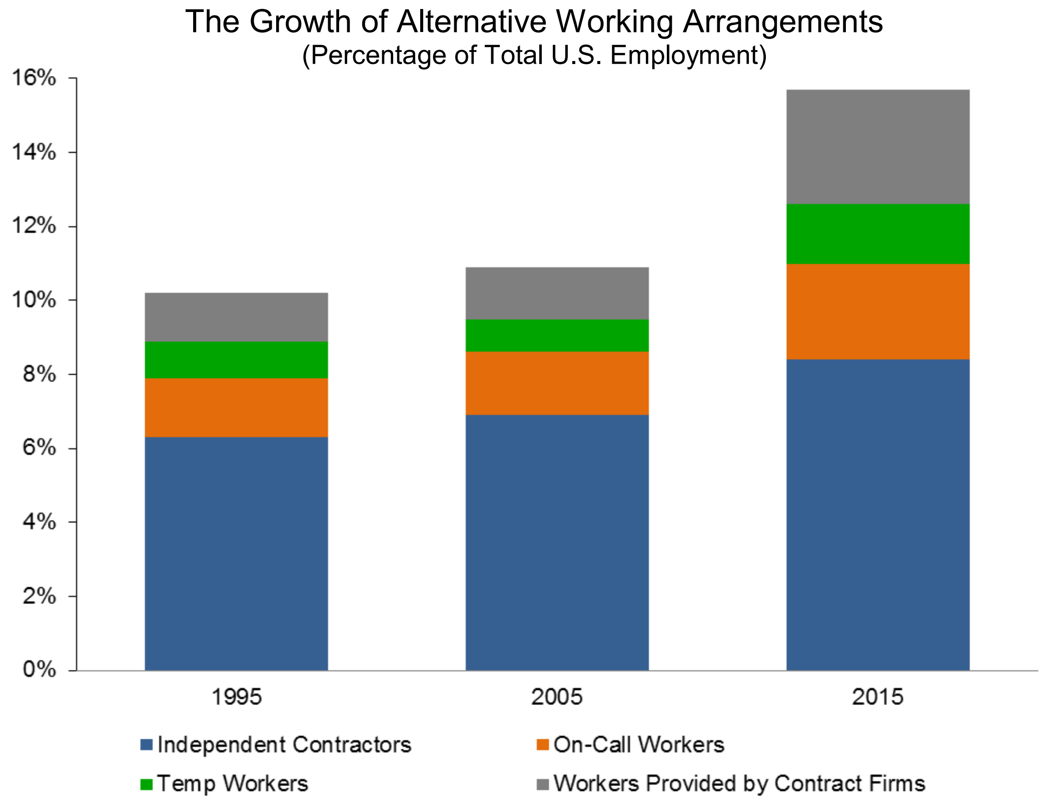
Generationally low unemployment but stagnant wages. What gives?

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.

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.



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