Macro Roundup Article

Headline: Jason Furman On Employer Cost Index

Article Link: https://twitter.com/jasonfurman/status/1620437266962485248

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Tweet: .@jasonfurman notes the new employment cost index numbers are not consistent with target inflation of 2%. “If the labor market stays in the same shape,...I would expect inflation to be 3.5% and likely drifting up from that."

Summary: Good news for prospects for sustained lower inflation from the latest Employment Cost Index (ECI) data. But, the growth in Q4 was still higher than any quarter in the previous cycle. So still not likely to be compatible with 2% inflation and probably not even 3% inflation. In terms of the well-being of the average worker, ECI wages are 2% below their pre-COVID peak and 5% below their pre-COVID trend. This is an average--wages up more for lower-wage workers and down more for higher-wage workers. Real wages are lower today than they were in December 2019 for every industry except retail trade and leisure and hospitality. And they are below trend in every industry. If the labor market stays in similar shape (measured in terms of the unemployment rate, job openings and the quits rate) then I would expect inflation to be 3.5% and likely drifting up from that--nothing says this need to continue its monotonic decline.

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Primary Topic: Inflation

Topics: GDP, Inflation, Monetary Policy, Op-Ed/Blog Post, Sell-by Date, Theory

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