

Macro Roundup Article

Headline: [Is Post-Pandemic Wage Growth Fueling Inflation?](#)

Article Link: <https://www.bostonfed.org/publications/current-policy-perspectives/2024/is-post-pandemic-wage-growth-fueling-inflation>

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Tweet: Current wage growth is consistent with target inflation. A @BostonFed model argues that as inflation has outpaced wages over the past three years wage growth can "catch up" without creating inflationary pressure. @phil_andrade @gpgjoaquim

Summary: Our model forecasts no statistically significant additional pressures from wages on prices if year-over-year ECI growth in the fourth quarter lands within the dashed vertical lines, that is, 3.78 to 4.25%. Even for values slightly above this range but in line with recent realizations, our model predicts only a moderate effect of ECI growth on one-year-ahead inflation. Note that our results imply there will be no additional impact on inflation dynamics from the labor market for a range of year-over-year ECI growth for 2023:Q4 that is clearly higher than the sum of the Federal Reserve's inflation target of 2% and historic average productivity growth. The key economic force behind this result is the catch-up effect referred to above. Because inflation has, on average, grown faster than productivity-adjusted wages in the last three years, there is room for wage growth to surpass inflation for some time so that it aligns with the historic relationships among the growth rates of prices, wages, and productivity. Related: The Labor Market Is Primed For a Soft Landing and The U.S. Economy Refuses to Slow Down and Are You Better Off Than You Were Four Years Ago?

Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Government/NGO, Wages/Income, Weekly, Workforce

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