

Flash Note

US chart of the week – Disrupted!

Internet disruption is affecting the laws of economics

Pictet Wealth Management - Asset Allocation & Macro Research | 6 September 2017

The US economy is growing steadily, but still not triggering much inflation. The labour market is tight, but wage growth remains relatively muted.

The August employment report provided another example of this disconnect: although the unemployment rate remained a low 4.4%, wage growth (average hourly earnings) rose only 2.5% y-o-y.

Emerging disruption from the internet sector may be partly responsible for the ongoing softness in wages in the key retail sector.

Average hourly earnings for production workers in non-store (internet) retailing were down 14.2% y-o-y in July and show signs of converging down towards wage levels in traditional retail.

The US economy is challenging 'textbook' macroeconomics. The labour market is tight, but wage growth is paltry. Growth is chugging along steadily and the output gap (the difference between actual GDP and its theoretical trajectory at full potential) is gradually closing, but inflation remains muted.

Clues as to why things are not panning out the way theory suggest they should need to be sought at the microeconomic level, in our view. In particular, one should look at how the internet and its burgeoning ecosystem are challenging 'traditional' sectors. We think the disruption the internet is causing is at least partially responsible for the ongoing softness in wage growth. With this disruption likely to continue, wage growth is unlikely to break decisively higher in the coming months, in our view. This will in turn most probably mean the Fed's tightening cycle remains very gradual.

Average hourly earnings rose only 2.5% y-o-y in August. For production workers (i.e. those in non-managerial positions), wages were up even less: 2.3% y-o-y. Trends in both internet and traditional retail could be partially responsible for low wage growth. In fact, wages in internet retail seem to be 'converging down' towards those in traditional retail, perhaps because after an initial phase when internet recruitment was about filling engineer / administrative positions, now internet retailers are more likely to looking for lower-paid staff in areas such as order fulfilment. Wages for production workers in non-store retailing declined 14.2% y-o-y to USD 21.66/hour in July (latest available data), while in grocery retailing wages rose 2.5% y-o-y, to USD 13.09/hour.

Wages in internet retail seem to converge down towards 'traditional retail'



Source: Pictet WM – AA&MR, Bloomberg

AUTHOR

Thomas COSTERG
tcosterg@pictet.com
+41 58 323 3963

Pictet Group
Route des Acacias 60
CH - 1211 Geneva 73
www.pictet.com

Notice: This marketing communication is not intended for persons who are citizens of, domiciled or resident in, or entities registered in a country or a jurisdiction in which its distribution, publication, provision or use would violate current laws and regulations.

The information, data and analysis furnished in this document are disclosed for information purposes only. They do not amount to any type of recommendation, either general or tailored to the personal circumstances of any person. Unless specifically stated otherwise, all price information is indicative only. No entity of the Pictet Group may be held liable for them, nor do they constitute an offer or an invitation to buy, sell or subscribe to securities or other financial instruments. The information contained herein is the result neither of financial analysis within the meaning of the Swiss Bankers Association's Directives on the Independence of Financial Research, nor of investment research for the purposes of the relevant EU MiFID provisions. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness.

Except for any obligations that any entity of the Pictet Group might have towards the addressee, the addressee should consider the suitability of the transaction to individual objectives and independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences.

Furthermore, the information, opinions and estimates in this document reflect an evaluation as of the date of initial publication and may be changed without notice. The Pictet Group is not under any obligation to update or keep current the information contained herein. In case this document refers to the value and income of one or more securities or financial instruments, it is based on rates from the customary sources of financial information that may fluctuate. The market value of financial instruments may vary on the basis of economic, financial or political changes, currency fluctuations, the remaining term, market conditions, the volatility and solvency of the issuer or the benchmark issuer. Some investments may not be readily realizable since the market in the securities can be illiquid. Moreover, exchange rates may have a positive or negative effect on the value, the price or the income of the securities or the related investments mentioned in this document. When investing in emerging countries, please note that the political and economic situation in those countries is significantly less stable than in industrialized countries. They are much more exposed to the risks of rapid political change and economic setbacks.

Past performance must not be considered an indicator or guarantee of future performance, and the addressees of this document are fully responsible for any investments they make. No express or implied warranty is given as to future performance. Moreover, forecasts are not a reliable indicator of future performance.

The content of this document can only be read and/or used by its addressee. The Pictet Group is not liable for the use, transmission or exploitation of the content of this document. Therefore, any form of reproduction, copying, disclosure, modification and/or publication of the content is under the sole liability of the addressee of this document, and no liability whatsoever will be incurred by the Pictet Group. The addressee of this document agrees to comply with the applicable laws and regulations in the jurisdictions where they use the information reproduced in this document.

This document is issued by Banque Pictet & Cie SA. This publication and its content may be cited provided that the source is indicated. All rights reserved. Copyright 2017.

Banque Pictet & Cie SA is established in Switzerland, exclusively licensed under Swiss Law and therefore subject to the supervision of the Swiss Financial Market Supervisory Authority (FINMA).

Distributors: Banque Pictet & Cie SA, Pictet & Cie (Europe) SA