

Where's the wage growth?

Published on: 15 September, 2017 | Author: Investment Team

We are in the middle of preparing and reviewing the data for our quarterly investment conference. Everyone has an opinion but it is always worth examining the raw economic information coming out of Central Banks, Government statistics organisations and other global institutions such as the World Bank and the IMF.

Equally, it is always interesting to keep an eye on company statements to get a feel for what is happening on the ground and whether the two perspectives; top down and bottom up coincide.

Despite the wobbles over the summer it seems clear that the global economic expansion that has been underway for some time is set to continue. The data coming out of the US points to further albeit weak expansion, China looks stronger and more balanced by the day and the newsflow emanating from Europe is improving all the time.

By contrast, the data in the UK is slowly deteriorating and a straw in the wind for the future is the step up in inflation this week as the weakened pound feeds into higher import costs. Interest rate forecasts in the UK have turned slightly more hawkish as Mark Carney and the MPC may have to deal with the very old fashioned British problem of stagnant growth and rising inflation. Raising interest rates in the face of weak economy coping with Brexit is not what the doctor ordered. In this respect the UK is *sui generis*.

Two issues jump out from the data: firstly, the key risk to the outlook appears to be geo-political rather than strictly economic. However, with the German elections this month, the European electoral cycle comes to an end and with it a return to more settled and perhaps, more global leadership, particularly from Germany.

The other, arguably more important, issue is that wage growth is virtually absent across the developed world. More than that, even in China wage growth has slowed from low double digits a decade ago to around 6% today and is on a downward trend. We've talked about weak productivity before in these pages but there are no real signs that any improvement is in sight.

A number of important consequences flow from that observation: firstly, the obvious point that aggregate spending can only increase via additional borrowing if incomes aren't rising. Secondly, it implies that the world economy will remain "demand deficient" for the foreseeable future and thirdly that large scale QE programs will remain a feature of the economic landscape.

Yet even with a QE program that is four times as large as the US and Europe relative to GDP, Japan is still struggling to achieve a self-sustaining economic lift-off.

This is not to sound too negative a note surrounding the global economy. Data are generally improving but for this to spur further expansion we need to see some spillover into wage growth. After all, in the economy taken as a whole, "your spending is my income."

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