PANTHEON MACROECONOMICS

Datanote: US Employment Costs, Q1

In one line: Disappointing, but not the end of slowing employment costs inflation

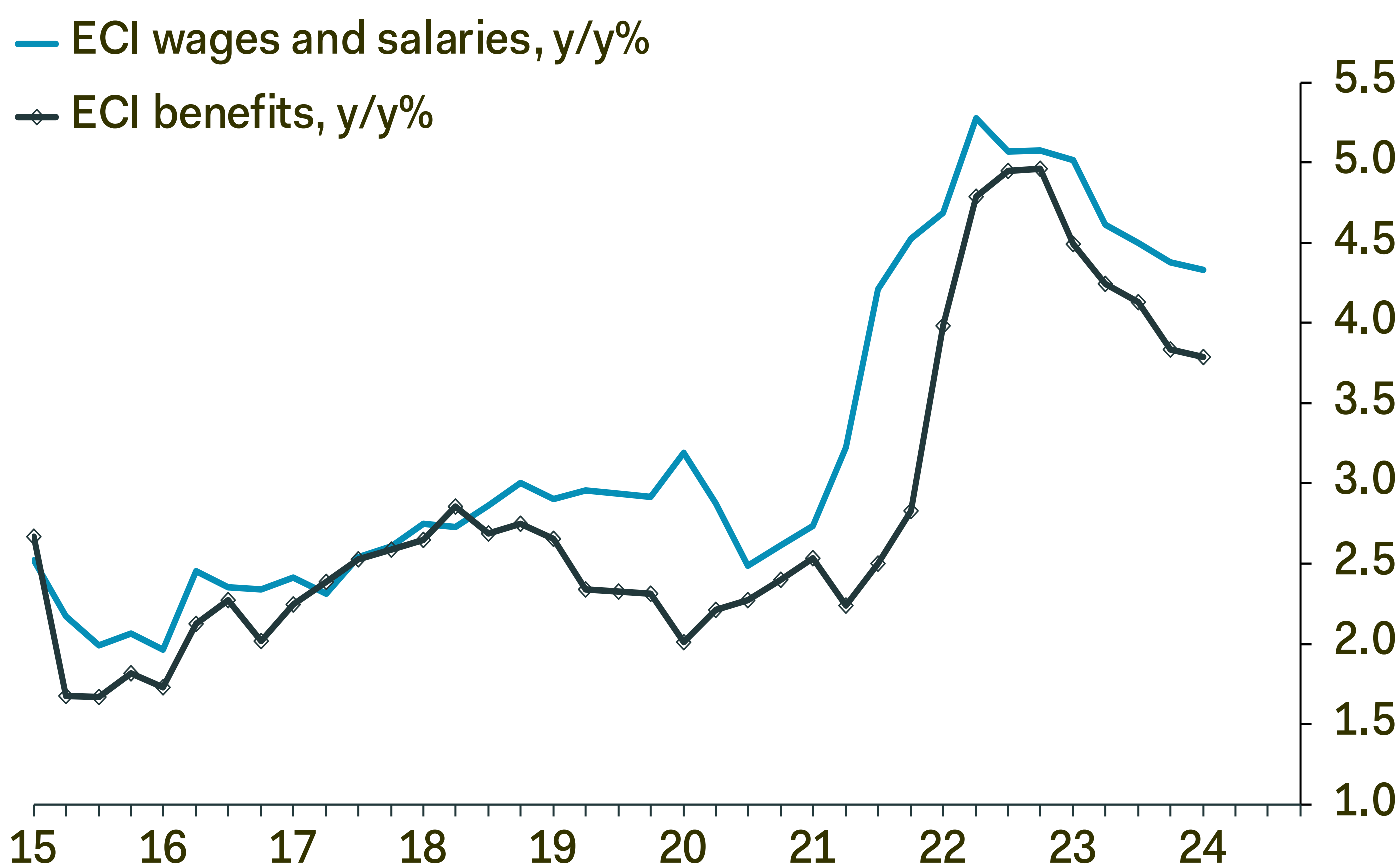
- The Q1 ECI rose 1.2%, above the consensus, 1.0%.

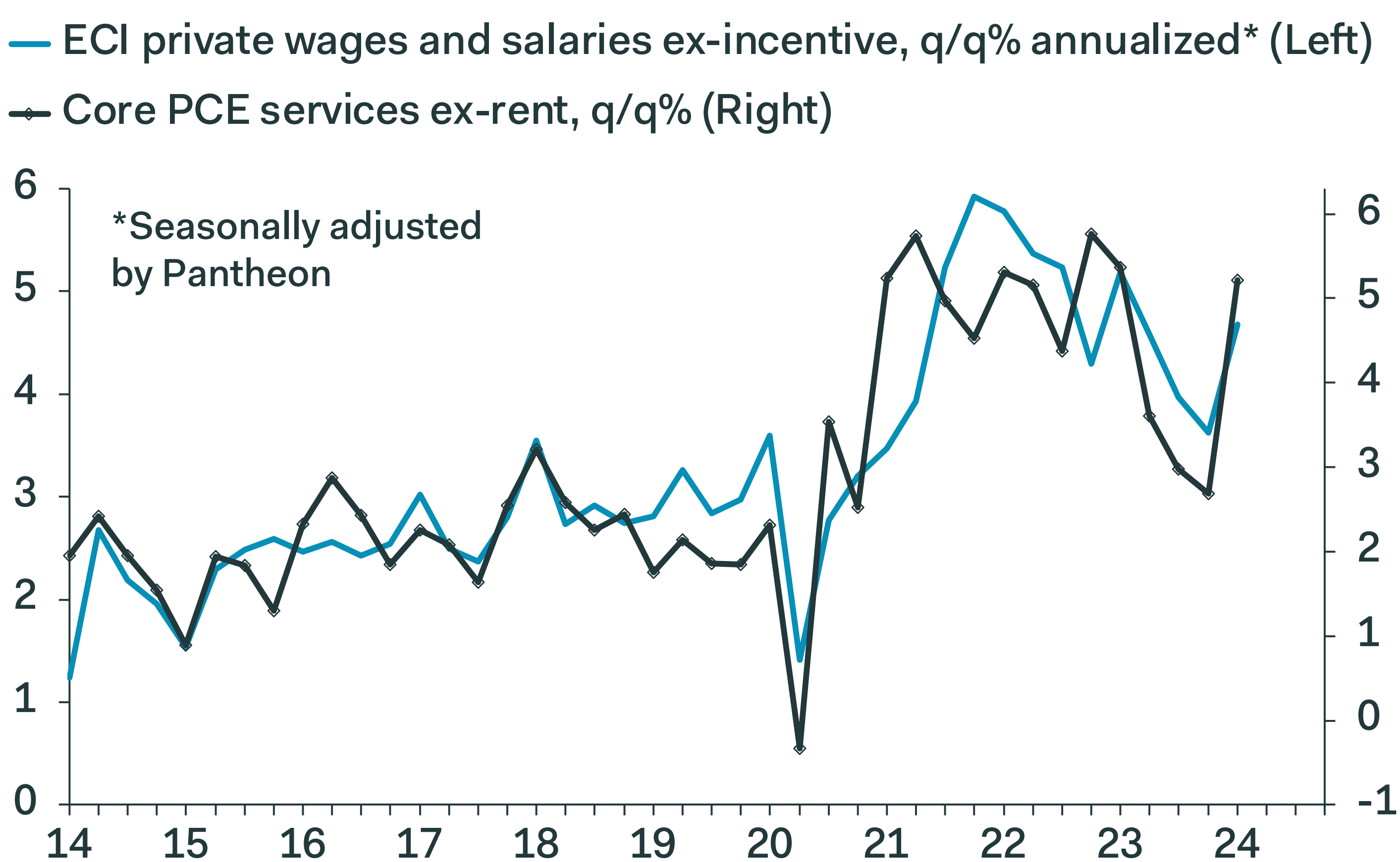
Both wages/salaries and benefit costs rose by 1.1%; unfavorable rounding appears to be responsible for the 1.2% headline print. This is the third straight

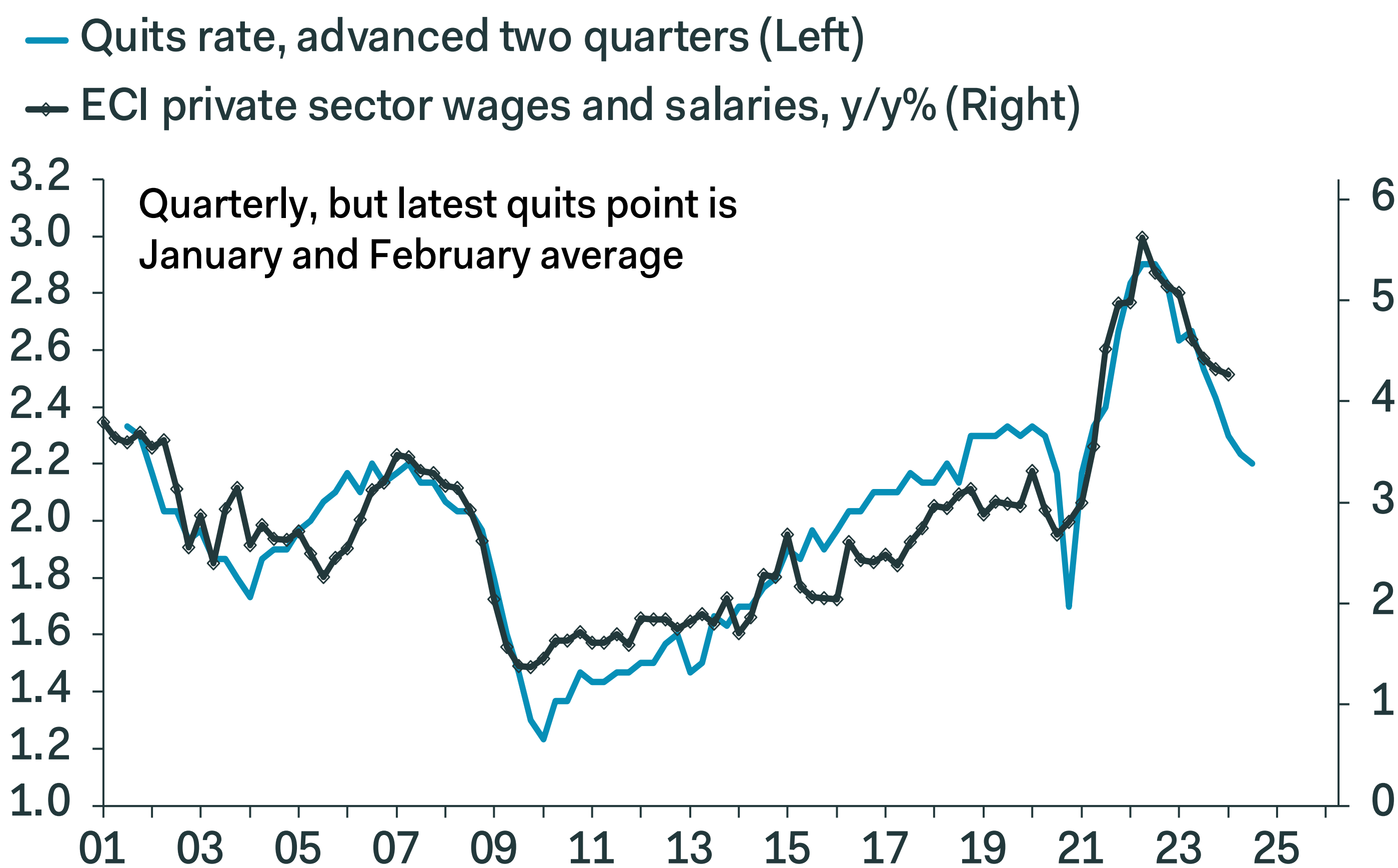
Q1 overshoot relative to the prior trend, hinting at - but not proving - residual seasonality in the data. But even on a y/y basis, the downshift in growth in employment costs, both wages and benefits has slowed. This likely will prove temporary, given the very clear message from the low and falling quits rate, but the Fed is uninterested in forecasts and this report will be deeply unwelcome.

Core ECI wage growth and core PCE prices ex-services tend to trend together, and the uptick in both in Q1 means that the Fed would now need to see a spectacular rollover in payrolls in May and June and equally spectacular inflation numbers in order to cut rates in June. That's possible but the ECI has raised the bar for easing to the point where we now have to look for the first move in September instead.

To be clear, our view on the fundamentals is unchanged. An array of labor market indicators points clearly to much slower job growth over the next few months - we’re at 150K for April and 100K for May - and falling quits will weigh heavily on wage growth. And we expect much better core inflation prints as recent idiosyncratic factors - including unfavorable residual seasonality in Q1 - fade away. For now, though, the ECI data will embolden the Fed’s hawks.


ECI wages and salaries, y/y%
ECI benefits, y/y%
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
15
16
17
18
19
20
21
22
23
24


ECI private wages and salaries ex-incentive, q/q% annualized* (Left)
Core PCE services ex-rent, q/q% (Right)
*Seasonally adjusted
by Pantheon
6
5
4
3
2
1
0
-1
14
15
16
17
18
19
20
21
22
23
24


Quits rate, advanced two quarters (Left)
ECI private sector wages and salaries, y/y% (Right)
Quarterly, but latest quits point is
January and February average
3.2
3.0
2.8
2.6
2.4
2.2
2.0
1.8
1.6
1.4
1.2
1.0
6
5
4
3
2
1
0
01 03 05 07 09 11 13 15 17 19 21 23 25