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STRONG ECONOMY DROVE WAGES HIGHER IN AUGUST AS HIRING HEATS UP

U.S. nonfarm payrolls expanded by 201,000, while private-sector hourly wages grew 2.9% from a year earlier

By Harriet Torry and Sarah Chaney
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WASHINGTON – A robust economy drove U.S. wages higher in August, new evidence that workers are gaining bargaining power with their employers as the nation’s pool of available labor becomes tighter in an expansion that appears to have gained steam in 2018.

The Labor Department reported Friday that worker payrolls expanded by 201,000 in August and private-sector hourly wages grew 2.9 percent from a year earlier. The payroll gain marked the record 95th consecutive month of job growth – much of it near or slightly below that 200,000 monthly mark – and the wage increase was the largest since mid-2009.

Wage growth has been a missing ingredient in the expansion. It hovered for years below pre-recession levels but has been creeping higher since 2015, with the August reading marking a new high for the expansion.

Many factors held wage growth down, including slack in the economy after the 2007-09 recession and increased competition in the U.S. from workers abroad. But as U.S. unemployment has declined, the supply of workers has diminished, giving individuals more leverage to demand and get better pay.

“Everybody is battling for the very few skilled people out there,” like machinists and engineers, said Richard Huether, chief executive of Independent Can Co., base in Belcamp, Md. He said he has seen some employees resign without backup jobs, for instance to move back home, knowing they’ll find something where they want it.

Good news for workers isn’t always good news for investors. The wage increase suggested a modest buildup in inflation pressure that could encourage the Federal Reserve to keep raising short-term interest rates, which tends to push down stock and bond prices.

The Dow Jones Industrial Average dropped after the report, and yields on 10-year Treasury notes, which move inversely with bonds, rose. “You could see [the wage increase] leaking into broader measures of inflation,” said Michael Arone, chief investment strategist at State Street Global Advisors.

Investors took note that the percentage of the adult population working or looking for work dropped slightly in August to 62.7 percent, from 62.9 percent the month before.

Labor-force participation faces ongoing downward pressure from retiring baby boomers. In recent months, however, the economy had been showing signs of drawing more potential workers from the fringes of the economy back into the labor market, a trend that could help keep inflation in check and investors pleased.

The August drop in labor-force participation suggested there was a limit to that trend, knocking down stocks and bonds. However the drop in participation was concentrated among teenagers and might have been a seasonal or statistical quirk.

"Overall, the momentum in the economy looks solid," said Michael Feroli, chief U.S. economist at JPMorgan Chase & Co.

Revised figures from the Labor Department showed employers added 147,000 jobs in July and 208,000 in June, a net downward revision. Still, year-to-date job gains have averaged about 207,000 a month, compared to 189,000 in the same period a year earlier.

Emily Reaves, an IT software analyst in Jacksonville, Fla., said she was "pretty scared" when she was recently let go from a job. Yet Ms. Reaves, 33 years old, found a new position through a recruiter in a week and a half.

"I feel good right now. I also know it's important to be cautiously optimistic," she said.

The Fed is on track to raise short-term interest rates, currently in a range between 1.75 percent and 2 percent, by a quarter percentage point at its September 25-26 policy meeting and again in December.

"Wages aren't yet rising fast enough to scare the Fed," Ian Shepherdson, chief economist at Pantheon Macroeconomics, said in a note to clients. "But the expectation that further gains are in the pipeline, given the lag from falling unemployment, explains policymakers' intentions to keep hiking," he wrote.

Tamra Kennedy, a franchise owner of eight Taco John's International Inc. restaurants in the Minneapolis-St. Paul area and one in Iowa, said competition for workers has prompted her to start advertising jobs on the radio. She also started offering a \$100 bonus for the first 100 hours worked by new hires, and raised wages in July by 13 percent or more.

The wage gains aren't all good news for workers. As wages have risen, so has the cost of living for American households. Inflation as measured by the Labor Department's consumer-price index increased 2.9 percent in the year to July, the same rate that average hourly earnings increased by over the year to August.

Democrats have argued that flat inflation-adjusted wages are evidence the strong economy isn't delivering improved well-being broadly to workers. The White House released a study this week showing that inflation-adjusted wages look better when using an inflation gauge produced by the Commerce Department which the Fed prefers. Add in tax cuts, the White House argued, and household pockets are fuller.

Hand & Stone Massage and Facial Spa, a massage and facial spa with 385 franchised locations across the nation, is seeking to expand. Chief executive Todd Leff says the firm plans to open 55 to 60 spas.

Each new location will need to staff up with about 15 licensed therapists and five to seven sales associates.

"Our biggest challenge is finding people," Mr. Leff said. A downturn in enrollment at massage-therapy and skin-care schools means fewer available therapists, Mr. Leff said.

To help address this labor shortage, Hand & Stone offers tuition reimbursement for massage-therapy-school graduates of about \$125 to \$150 a month. The spas are also

offering training for hot stone and Himalayan Salt treatments, as well as wage bumps of 5 percent to 7 percent for therapists to aid with retention.

- Daniel Kruger contributed to this article.