THE ECONOMIC OUTLOOK GROUP

475 Wall Street
PRINCETON, NEW JERSEY 08540 Tel: 609 - 529 - 1300
www.economicoutlookgroup.com

ECONOMIC TALKING POINTS

Bernard Baumohl
Chief Global Economist

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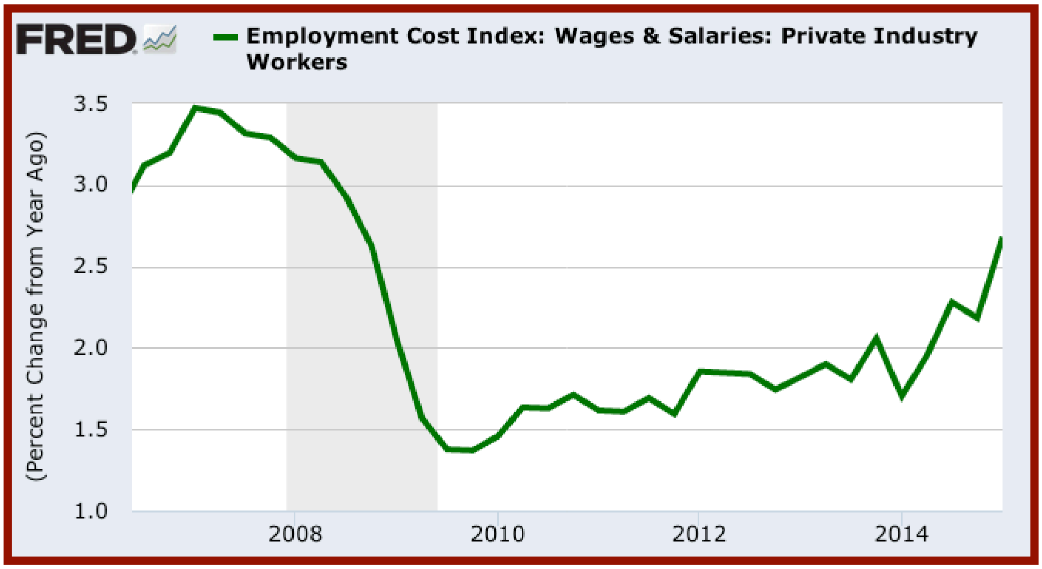
Don't Dismiss June Yet for the Fed to Lift Rates

The needle on when the Fed begins to normalize rates has just shifted slightly back toward June.

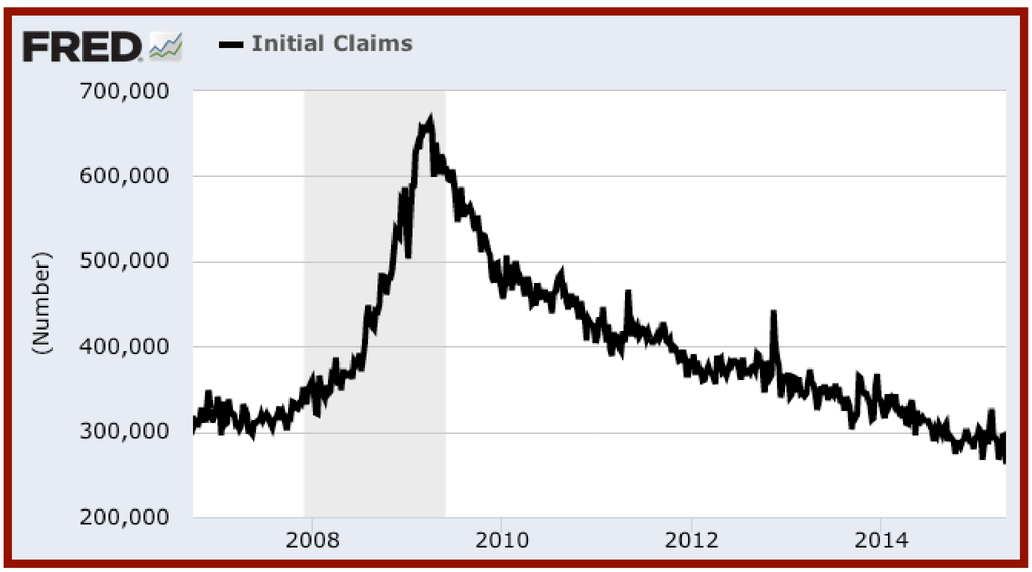
Data out this morning supports the view that labor market conditions are getting so tight that employers are bidding up the price for increasingly scarce workers. The employment cost index (ECI), one of the better measures on how expensive it is to hire new workers and retain existing employees, rose more than expected in the first quarter. Total compensation, which includes wags and benefits, increased 0.7% the first three months of the year, compared with 0.5% the previous quarter. Over the last 12 months, compensation jumped 2.6%, the fastest rise in more than 6 years.

This acceleration in pay has been especially pronounced in the private sector. Firms saw their compensation costs climb 2.8% this past year, the most since the 3Q 2008. Wages and salaries in the ECI alone jumped 2.8%, with benefits up 2.6% during this time, **both multi-year highs.**

Underscoring this general trend has been the release on personal income and spending during March. While personal income showed no gain last month, we have to remember this is an aggregate figure that also includes rental and farm income, unemployment insurance, dividends and other sources of funds. If we look strictly at the wages and salaries component, which has the biggest impact on consumer spending, it rose another 0.2% and was up 3.8% since March of last year. That 3.8% annual figure, which looms far above the 0.3% rate of PCE inflation, highlights the increase in purchasing power Americans are enjoying. It also helps explain why personal spending accelerated in March by 0.4%, the biggest increase since last November.



The trend toward higher pay and more attractive benefits will continue given the declining numbers of unemployed and underemployed Americans. With the competition to find new workers heating up (job openings are at a 14 year high!) , companies have dramatically scaled back layoffs. New claims for unemployment benefits plummeted to 262,000 in the week ending April 25, the fewest filings in 15 years! The number of Americans currently collecting jobless income is the now the lowest since December 2000.



Bottom line:

All the in indicators above are among the most closely watched by the Federal Reserve and you can bet these economic numbers have already overshadowed the weak GDP output in 1Q. Should subsequent economic reports confirm the US economy has shaken off the sluggishness of the first three months, a rate hike in June cannot be dismissed.

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