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Nearly 70% of Economists Expect Faster Wage Growth Over Next Year, WSJ Survey Says

Most economists in a Wall Street Journal survey expect the tighter labor market to speed wage gains

By Harriet Torry May 9, 2019

U.S. wage growth is set to pick up over the next year, as economists expect a tight labor market will continue to push up workers' pay.

Most private-sector forecasters surveyed in recent days by The Wall Street Journal—63.6%—expect wages will grow at a somewhat faster rate over the next year, while a further 5.5% of economists said wages will grow at a substantially faster rate.

"We continue to hear from manufacturers about how difficult it is to attract talent in the tight labor market, a challenge that we do not see changing in the near future," said Chad Moutray, chief economist at the National Association of Manufacturers.

Just under a quarter of economists, 23.6%, expect wages to grow at the same 3.2% year-over-year pace seen in April. Just 7.3% expect the pace will slow over the next year.

Year-over-year growth in average hourly earnings has been above 3% every month since August after lagging that pace for nine straight years. The pickup in wage growth has come as the labor market continues to tighten. In April, the unemployment rate dropped to 3.6%, the lowest level since December 1969, the Labor Department said last week.

On average, economists see the unemployment rate holding at 3.6% through December, before rising slightly to 3.7% in June 2020 and 3.8% at the end of next year.

One factor that could be helping to boost wage growth is rising productivity. Wages tend to rise when productivity is strong, as it can make it easier for businesses to justify pay increases if workers produce more per hour.

The productivity of nonfarm workers, measured as the output of goods and services for each hour on the job, increased a seasonally adjusted 2.4% in the first quarter from a year earlier, the Labor Department said last week. That was the best year-over-year gain since the third quarter of 2010, when the economy was just emerging from a deep recession.
However, many economists expect that productivity trend will be short-lived, citing temporary factors like the 2017 tax cuts and strong inventory investment that contributed strongly to U.S. economic growth in the first quarter.

"Companies are still boosting payrolls, even though economic growth will be slower this year than in 2018," said **Bernard Baumohl, chief economist at the Economic Outlook Group**. "That combination of less output but greater hours worked will restrain productivity growth in 2019."

Over half of the survey respondents, 65.5%, said they expect productivity to grow at a slower rate over the next year than the 2.4% seen in the first quarter. Some 21.8% expected it to grow at a faster rate, while 12.7% expected growth to continue at the same rate.

Instead, economists expect the faster wage growth to be driven by worker scarcity.

"Continued competition for workers is likely to push wages up faster," said Lynn Reaser of Point Loma Nazarene University, a former chief economist at Bank of America Corp.

While U.S. wage growth has risen, inflationary pressures have remained relatively muted, which leaves more money in workers' pockets.

Economists expect that trend to continue, with year-over-year inflation seen rising only slightly this year, from 1.9% in June to 2.2% by the end of this year.

While faster pay increases are a positive sign for U.S. households and point to stronger consumer spending ahead, economist Amy Crews Cutts noted they aren't growing fast enough to make up for tepid gains since the Great Recession.

"No one is getting paid back what they have lost economically," said Ms. Crews Cutts, an independent consultant.

Just over a third of economists, 35.7%, expect the next recession to start in 2020, while 52.4% expect it will start in 2021. That marked a shift from the prior two surveys, when nearly half of respondents expected the next recession to start in 2020. In April, 40% predicted the next downturn will start in 2021, while in March about a third forecast a downturn to begin in 2021.

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