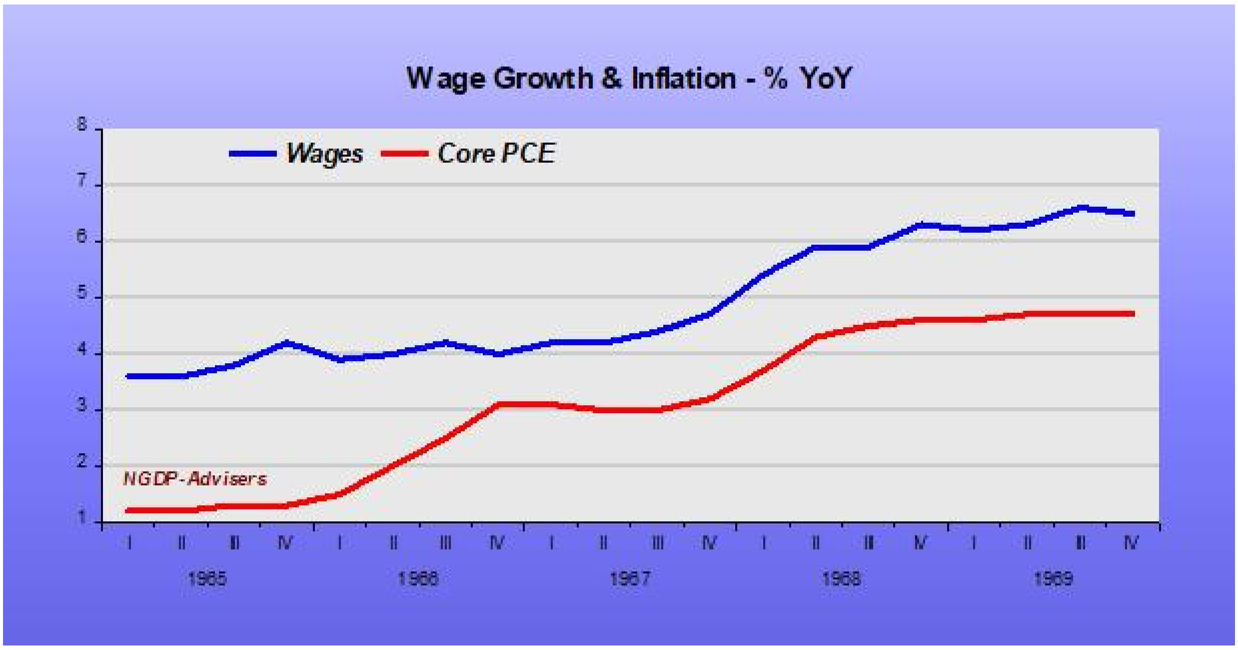
The Fed´s ‘model’ is screwed up

In Powell’s Fed Could Clear Up a Few Mysteries Puzzling Investors, we read:

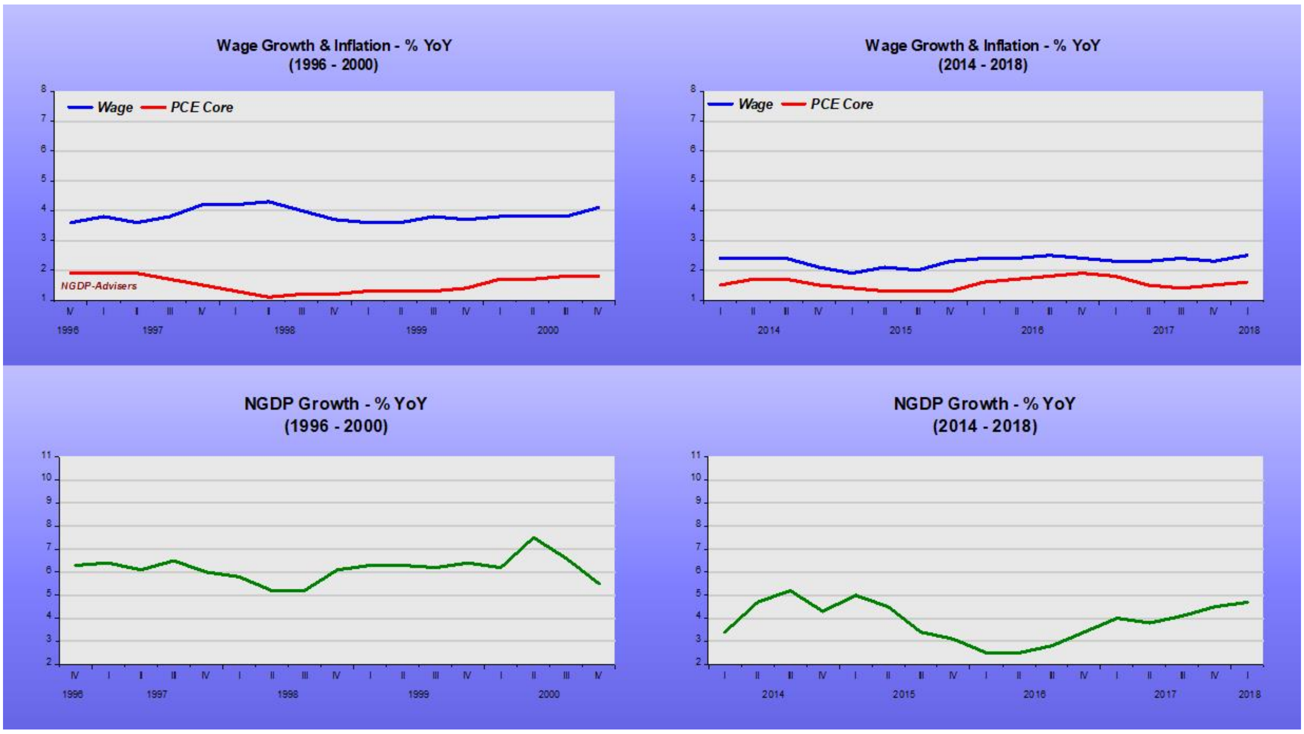
> The Fed says unemployment is already running below the level that can be sustained in the longer run, **but wages are crawling higher rather than taking off**. What’s more, job growth hasn’t slowed down as much as you might expect in an economy with a big worker shortage.

Fortunately, inflation is not a wage phenomenon. On the contrary, it is inflation that drives up wages. The late 1960s makes that clear. Note that wage growth only picks up after inflation has almost tripled!



Comparing the late 1990s and the last four years, you see that inflation is pretty much the same, while wage growth is significantly higher in the late 1990s.

Why? In the late 1990s, stable NGDP growth was higher, so the economy was more ‘enticing’. For some reason the Fed has decided that the economy has to be kept restrained, so it keeps NGDP growth stable at a significantly lower level. Wages ‘obey’.


Wage Growth & Inflation - % YoY
(1996 - 2000)
Wage
PCE Core
NGDP-Advisers
1996
1997
1998
1999
2000
Wage Growth & Inflation - % YoY
(2014 - 2018)
Wage
PCE Core
2014
2015
2016
2017
2018
NGDP Growth - % YoY
(1996 - 2000)
1996
1997
1998
1999
2000
NGDP Growth - % YoY
(2014 - 2018)
2014
2015
2016
2017
2018