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HIGHLIGHTS

- After trudging through a cold winter, U.S. hiring is primed to accelerate across the remainder of the year.
- Wage growth similarly shows promise of further gains, in part because there is less slack in the U.S. economy than commonly imagined.
- The combination of these two forces could double spending growth over the next few years, providing an important economic boost (and a minor challenge for profit margins).

## SETTING THE STAGE FOR HIGHER WAGES

Finding a job must surely rank as the single most important boost to one’s financial well-being. Among those fortunate enough to be gainfully employed, extracting a higher wage becomes the next key to a rising standard of living. Together, employment and wages play a tremendously important role in determining a wide range of other economic variables (Exhibit 1).

Alas, employment and wages sputtered their way through the post-crisis doldrums, limited by slow economic growth and crippling uncertainty. Bracing winter weather in North America has more recently impeded progress (Exhibit 2).

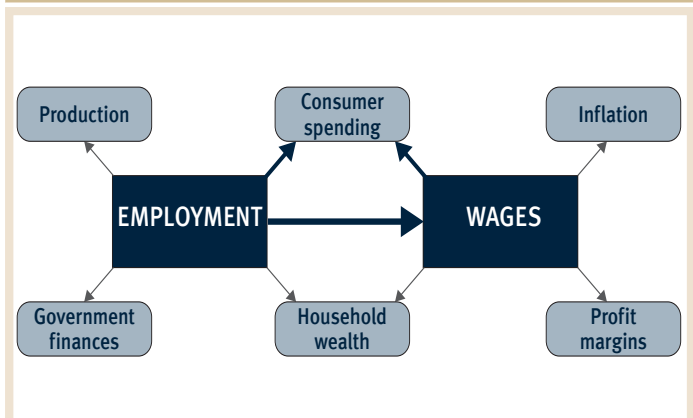
Fortunately, we anticipate a more upbeat scenario over the coming months and years, with particular relevance to the U.S. In the short run, better weather should unleash a coiled spring of hiring through the middle of 2014. Beyond that, the long-awaited economic normalization story should take over, thanks to fading fiscal drag, declining uncertainty around the path of public policy (Exhibit 3) and rising risk appetite (Exhibit 4). In its wake should come more hiring, higher wages and rejuvenated consumer spending. Already there are hints that faster hiring is on its way, and of rejuvenated wage growth.

### Labour market cues

We begin with a U.S. labour market checkup.

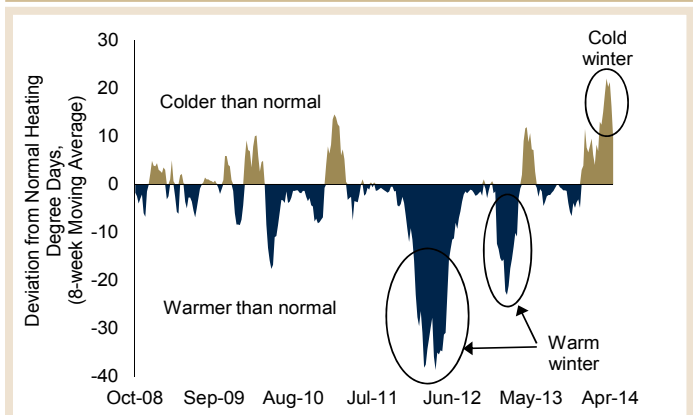
As a simple starting point, the imminent arrival of brisk economic growth should prod previously sidelined businesses back into hiring mode (Exhibit 5). In fact, if economic growth manages to eat through between 0.5 and 1.0 percentage point of economic slack annually over the next three years – our base case – history argues for between 223,000 and 471,000 net new jobs per month along the way. Even the low end of this range would represent a marked improvement from the recent performance.

Exhibit 1: Employment and wages are key economic drivers



Source: RBC GAM

Exhibit 2: Cold weather hurts U.S. economy temporarily



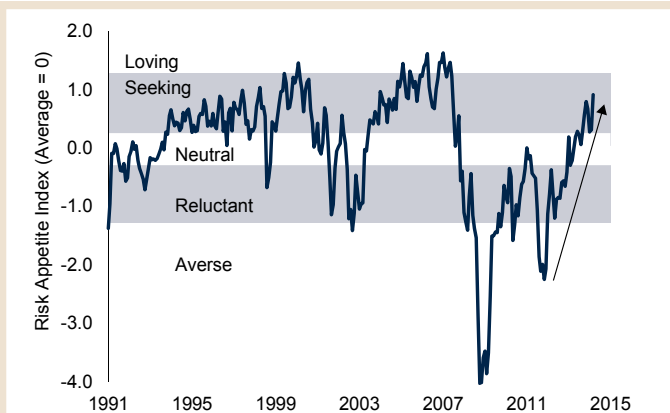
Source: NOAA, Haver Analytics, RBC GAM

**Exhibit 3: U.S. policy uncertainty fades nicely**



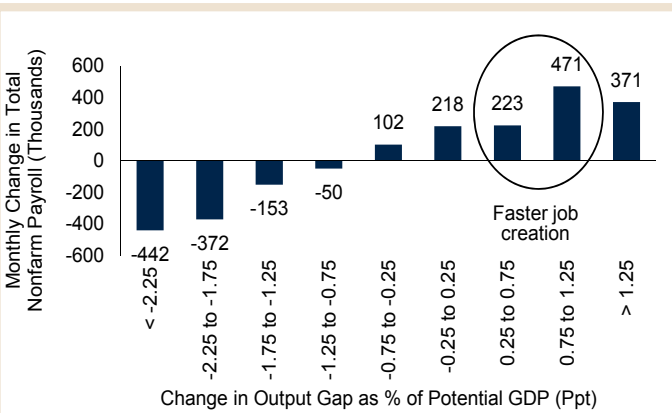
Note: Index measures economic policy uncertainty by assessing news with policy relevant terms, number of expiring tax codes, disagreement of forecasts for CPI and government spending. Mean = 100 from 1985-2009.  
Source: www.PolicyUncertainty.com, RBC GAM

**Exhibit 4: Burgeoning risk appetite**



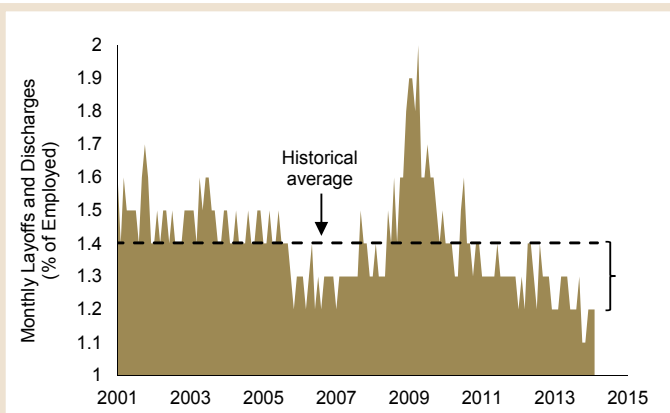
Note: Measures risk appetite based on 46 normalized inputs.  
Source: Bloomberg, BofA ML, Consensus Economics, Credit Suisse, Federal Reserve Bank of Philadelphia, Haver Analytics, NedDavis, RBC GAM

**Exhibit 5: Hiring's response to growth**



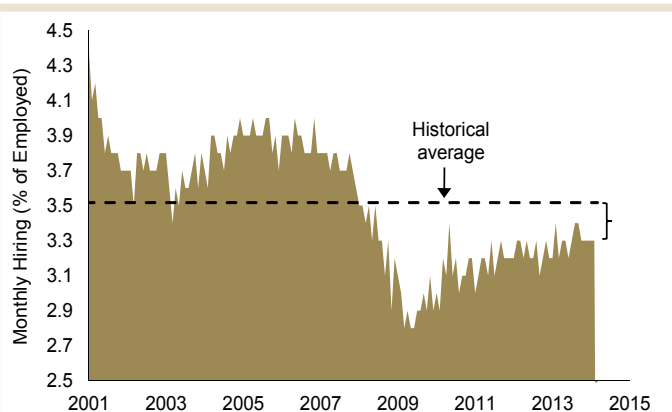
Note: Based on data since 1980. Quarterly output gap estimated using annual figures. Source: BEA, BLS, IMF, Haver Analytics, RBC GAM

**Exhibit 6: Layoffs already quite low**



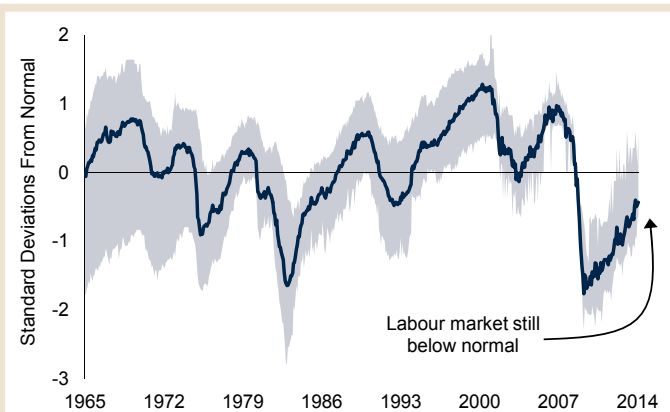
Note: Historical average since 2001.  
Source: BLS, Haver Analytics, RBC GAM

**Exhibit 7: Raw hiring rate still below normal**



Note: Historical average since 2001. Source: BLS, Haver Analytics, RBC GAM

**Exhibit 8: U.S. labour market conditions improve**



Note: Normalized index of employment variables measuring state of labour market relative to historical norm; shading shows central tendency of indicators.  
Source: Haver Analytics, RBC GAM

The internals of the labour market are certainly improving. The layoff rate is already quite low, confirming that firms have abandoned a downsizing mindset (Exhibit 6). The rate of job openings is also increasingly normal, indicating that companies are theoretically open to adding substantially more staff. What's needed is simply more actual hiring to fill those openings (Exhibit 7). As the labour market tightens, we suspect firms will awaken to the reality of a dwindling pool of available labour and scramble to make up for lost time.

There are already signs that the labour market is healing and momentum is building. Our aggregate employment index<sup>1</sup> shows steady improvement, though not yet fully normal conditions (Exhibit 8). Job creation over the past two years has averaged 178,000 new jobs per month – a workmanlike figure, but nonetheless well beyond the bare minimum of 100,000

<sup>1</sup> Includes the unemployment rate, employment rate, part-time share, unemployment duration, the U6 (broadest) measure of unemployment, the job openings rate, the involuntary turnover rate and the voluntary turnover rate.

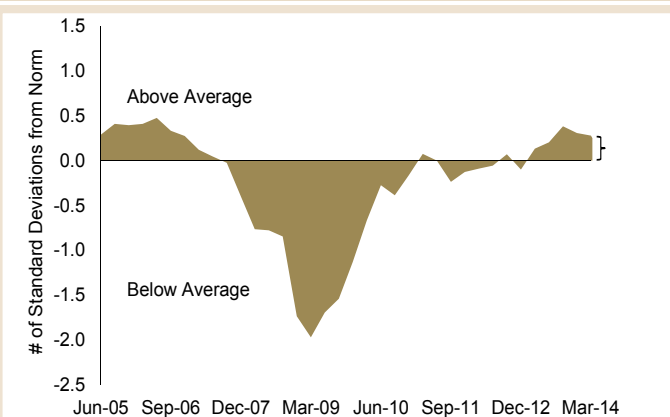
needed to maintain a steady unemployment rate. Accordingly, the unemployment rate has fallen to 6.7% from 8.2% over the same period.

Tantalizing hints of accelerating job creation also come from a tangle of labour market surveys. We combine these into an index of corporate hiring intentions, which endorses above-average job creation (Exhibit 9). From the worker's perspective, hiring is also substantially improved, and still on the upswing (Exhibit 10).

Two indirect leading indicators also suggest faster hiring is on the way. First, temporary hiring is hitting new highs (Exhibit 11). While temporary jobs by themselves are not something to celebrate, temporary hiring has reliably led broader job creation in the past.

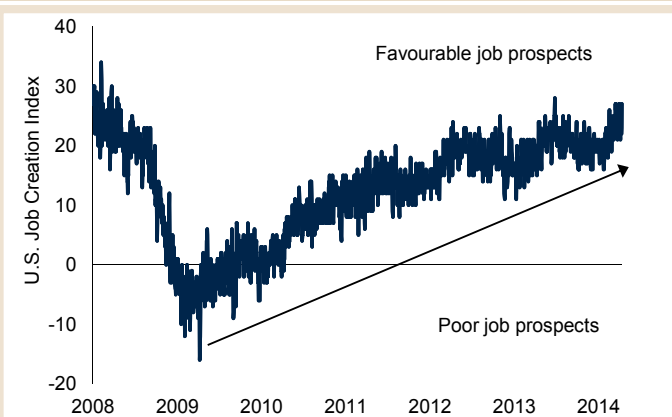
Second, the rate at which new companies are being formed continues to rise (Exhibit 12). It will come as no surprise that having more companies should equate to more jobs. But it

**Exhibit 9: Hiring intentions are above average**



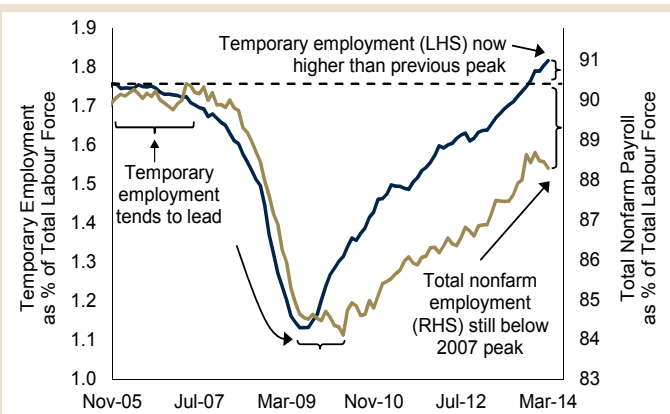
Note: Hiring intentions index based on combination of seven surveys of hiring intentions. Source: Haver Analytics, RBC GAM

**Exhibit 10: More workers say their employers are hiring**



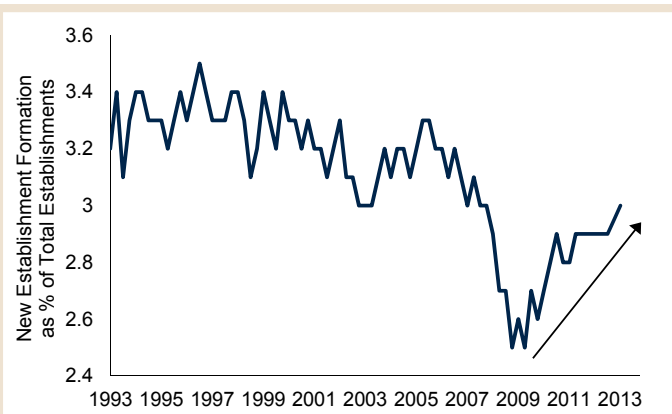
Source: Gallup, RBC GAM

**Exhibit 11: Temporary jobs lead the way**



Note: Peak from 2004 to 2008 (pre-crisis era) for both series shown as dotted line in chart. Source: BLS, WSJ, Haver Analytics, RBC GAM

**Exhibit 12: Company formation rate has picked up**



Source: BLS, Haver Analytics, RBC GAM

is illuminating to learn just how powerful this force is: in an average year, U.S. startups create around 3 million net new jobs, whereas existing companies tend in aggregate to be net job destroyers. Truly, job creation (and for that matter, innovation) comes from new businesses as the process of creative destruction plays out.

Offering a partial counterpoint after all of this rosy commentary, let us concede that all is not perfect. The breadth of hiring is a little worse than normal. The quality of new jobs created is also below average, though it is customary for job quality to be temporarily inferior during an economic recovery.

The key message is that most of the bad things about the labour market are becoming less bad, and the good things are getting better. Loosely speaking, we anticipate job creation of 200,000 to 300,000 new positions per month over the next few years as the unemployment rate wends its way to just under 6%.

## Slack off

The outlook for wages is determined in large part by the extent of economic and labour market slack. It is notable, then, that we believe there is presently less slack in the U.S. than commonly imagined. This can be demonstrated in a few ways:

### Output gap math

The first approach focuses purely on the output gap – the difference between how much an economy is producing and how much it is capable of producing. Our model of the U.S. output gap points to economic slack of just 2.0% to 2.5% of GDP, not the 3.0% to 4.6% estimated by other sources.<sup>2</sup> The model is discussed in Textbox A.

### Acknowledging decay

Another way of gauging the amount of economic slack is to consider the decay of workers' skills and of machinery that occurs when they go unutilized for long periods of time. If we assume that 10% of idle resources are lost in this way each year,<sup>3</sup> the persistent underperformance of the economy during and after the financial crisis explains the cumulative loss of over 2 percentage points of output, handily bridging the gap between the most pessimistic output gap estimates (which likely fail to factor in this hysteresis) and our own.

### Labour market slack

The labour market can also tell us something directly about economic slack. Normally, we'd just look at the gap between the unemployment rate and its historical norm, and map this onto the economy.

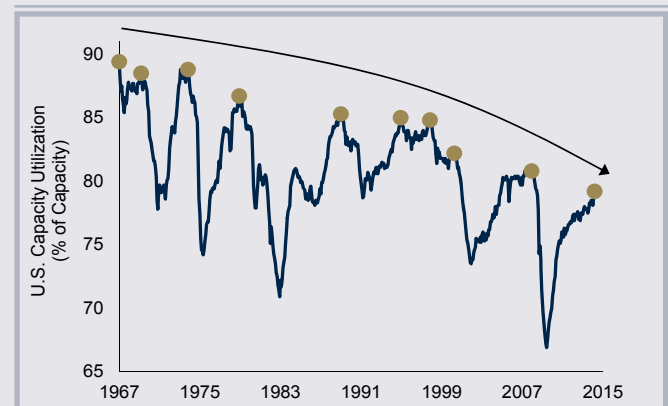
## TEXTBOX A: OUTPUT GAP MODELLING

Our output gap model includes the Conference Board's measure of the difficulty of finding work, the unemployment rate and the capacity utilization rate.

One possible criticism of this arrangement is that the unemployment rate fails to include a significant number of discouraged workers. However, as we discuss later in the report, the bias is smaller than popularly imagined, mostly offset by a higher natural unemployment rate relative to the historical norm (refer ahead to Exhibit 15).

Moreover, the capacity utilization rate is itself no longer a stationary variable, with "normal" seeming to fall over time as the developed world de-industrializes (Exhibit A). The inclusion of this variable therefore threatens to exaggerate the output gap estimate, and so serendipitously serves as a useful offset to the opposite distortion in the unemployment rate.

Exhibit A: Normal capacity utilization in structural decline



Source: Federal Reserve Board, Haver Analytics, RBC GAM

However, any such calculation now demands tweaking, for three reasons. First, the unemployment rate is undercounting the true ranks of the unemployed. Second, what qualifies as a "normal" unemployment rate is likely higher than it once was. Third, the labour market seems decreasingly reactive to the economy.

### 1) Undercounting unemployment

It seems clear that the unemployment rate does not fully reflect the extent of labour market suffering in the U.S. A glance at the size of the labour force provides an initially damning verdict: the labour force participation rate has fallen by a sharp 3 percentage points since before the financial crisis (Exhibit 13).

<sup>2</sup> Alternate estimates come from the CBO, IMF and OECD.

<sup>3</sup> This is a concept known as hysteresis.

In other words, there are many people who have stopped working but fail to appear in the official unemployment figures. If we were to simplistically add them back onto the unemployment rolls, the jobless rate would balloon to a distressing 11%.

While some of these missing people do deserve to be added back in a proper accounting of the unemployment rate, most actually shouldn't (Exhibit 14). Our calculations indicate that half of the decline in the labour force participation rate is due to an aging population, and is therefore unrelated to the economy. Further, we figure another quarter of the decline is structural, due mainly to skill decay as workers sit on the sidelines. These people won't be making their way back into the labour force any time soon. The final quarter are simply discouraged and can realistically return to the labour force, and should trickle back over the next several years.

Translated into the unemployment rate, this means that the "true" unemployment rate is around 1.1 percentage points higher than officially estimated. Thus, the 6.7% jobless rate should really be acknowledged as 7.8%.

### 2) Underestimating "normal"

On the other side of the equation, academic estimates increasingly point to a new "normal" unemployment rate of around 5.75%,<sup>4</sup> which is substantially higher than the 5.0% rule of thumb that prevailed before the financial crisis. The reason is that there is an expanded cohort of people still looking for work and appearing on unemployment rolls who are probably all but unemployable due to the decay of their skills and a changing economy.

With this knowledge, we can estimate that the financial crisis and its aftermath have permanently displaced around 1.25% of the working-age population. About 60% of them know they have little chance of finding work – and are no longer in the labour force.<sup>5</sup> The other 40% don't yet know this or have few alternatives, and so haven't given up their job search.

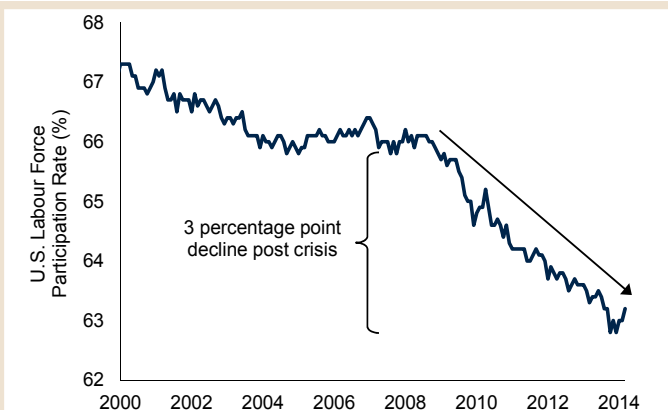
### 3) Labour-economy linkage

Weighing the offsetting effects of a higher unemployment rate and a higher "normal" rate, the implication is that the true unemployment gap is 2.1 percentage points. This is only slightly worse than the 1.7 percentage points that a traditional estimate would imply, and notably better than what many pundits and policymakers imagine (Exhibit 15).

<sup>4</sup> In a report published in July 2012 entitled "Hi-Ho, Hi-Ho, It's Back to Work They Go," we estimated at the time that the new normal unemployment rate was 6.00%–6.50%. Subsequent evidence suggests it is probably a bit lower.

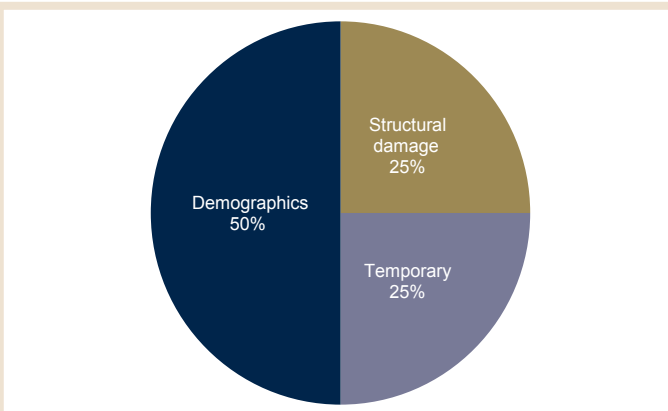
<sup>5</sup> The fate of those who drop out is varied. Some simply retire early, some households downshift from two income earners to one, some go on welfare and some go on disability. The U.S. long-term disability application rate has surged by 25% since 2007, and once people are on disability, they rarely exit (a mere 4% escape over a 10-year period).

Exhibit 13: U.S. workers dropped out of labour force



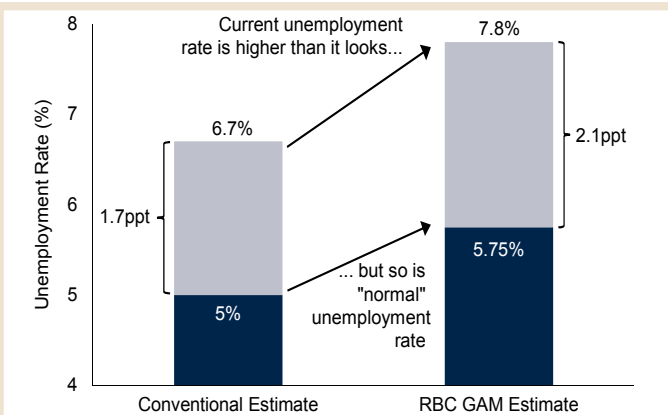
Source: BLS, Haver Analytics, RBC GAM

Exhibit 14: Rationale for decline in labour force participation



Source: Haver Analytics, RBC GAM

Exhibit 15: Unemployment gap adjustments mostly balance out



Source: Haver Analytics, RBC GAM

What does this mean for the amount of slack in the economy? We believe the relationship between the labour market and economy<sup>6</sup> has changed somewhat in recent years, with the multiplier between the two falling from 1.5x to something more like 1.25x for the U.S. In turn, a 2.1 percentage point unemployment gap becomes a 2.6% output gap. This is a little higher than our other estimates, but still materially lower than the consensus.

## Labour's loose ends

There are still two loose ends that warrant attention: the saga of part-time workers and the long-term unemployed.

### Part-time blues

Until now, we have ignored the fact that there are three million more involuntary part-time workers than usual in the U.S. economy. Shouldn't they be factored into our estimates of labour market slack?

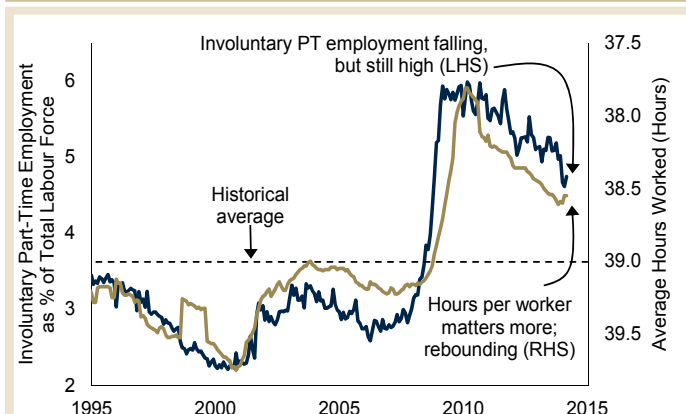
Ultimately, no. One reason is that there is a partial offset: the average manufacturing worker (and likely those in a handful of other sectors) is clocking unusually long hours. So whereas a large number of people are underemployed, another group is actually overworked.

The best way to reconcile these opposing findings is by evaluating the average weekly hours worked across the entire economy (Exhibit 16). We find that the average employee is working 0.5 hours per week (or 1.2%) less than normal.

This is material and does on the surface suggest that the labour market is a bit weaker than it looks. However, we are loath to adjust our estimates of slack in response. It is customary for hours worked to decline alongside the

<sup>6</sup> This relationship is known as Okun's Law.

**Exhibit 16: Involuntary part-timers exaggerate labour market weakness**



Note: Average hours worked is 12-month moving average. Historical average since 1995 of involuntary part-time (PT) employment and average hours worked aligned to show as one line. Source: Haver Analytics, RBC GAM

economy and employment during a downturn, and the drop during the last recession was in line with the usual response. Thus, the decline in hours worked is already implicitly factored into our various estimates of slack. To acknowledge it again would be double counting.

### Long-term suffering

The fact that the long-term unemployment rate is still extremely elevated is a popular justification for the view that the labour market remains quite weak. However, it is a mistake to dwell excessively on this variable, at least if one's focus is the wage outlook.

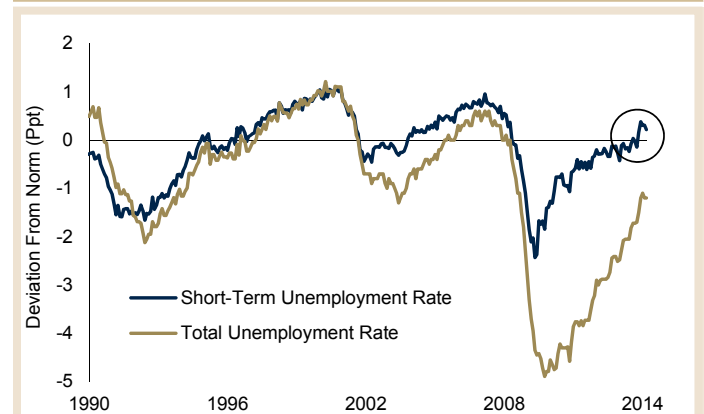
We find short-term unemployment to be the more important variable, making it quite heartening that it is already back to its normal range (Exhibit 17). There are two reasons short-term unemployment warrants this focus:

First, short-term unemployment tends to lead long-term unemployment by about six months. Thus, short-term unemployment is the variable to watch even if both mattered equally to the economy.

Second, our experimentation with a range of wage growth models reveals that short-term unemployment is far more important for determining wage growth. In isolation, it is eight times more explanatory than long-term unemployment for this task; when deployed together, short-term unemployment completely subsumes the meager relevance of long-term unemployment.

Why is this? The sad reality is that employers believe that the long-term unemployed are flawed in some way, by dint of their earlier inability to secure a job and because their skills have

**Exhibit 17: U.S. short-term unemployment already normal**



Note: Deviation from NAIRU for total unemployment rate. Deviation from historical average from 1990 to 2007 for short-term unemployment rate. Source: BLS, CBO, Haver Analytics, RBC GAM

likely deteriorated over the duration of their unemployment.<sup>7</sup> Growing businesses consequently find themselves battling over the smaller pool of short-term unemployed. This puts upward pressure on wages even when long-term unemployment rates remain relatively high.

On top of this, there appears to be some confusion over what constitutes a normal long-term unemployment rate. Long-term unemployment rates have not been particularly stationary over the decades, instead demonstrating a clear upward trend from one business cycle to the next (Exhibit 18). Current levels of long-term unemployment are less distended than they first look.

The bottom line is that whatever the underlying rationale,<sup>8</sup> the fate of the long-term unemployed simply isn't useful in determining the true extent of economic slack. In turn, we should not focus on this group when forecasting wages.

## Wage outlook

We can finally proceed to the wage outlook. Our sunny forecast is predicated on several things:

### A) Tighter economy and labour market

As discussed earlier, the economy and labour market are tighter than they look, and set to tighten further at a fairly brisk clip. Employers will eventually realize that the perfect employee they are holding out hope for simply does not exist, and job openings should increasingly translate into hires. This should shift the balance of power from employers to employees, boosting wages (Exhibit 19).

### B) Quits rate

The labour market's "quits rate" is rapidly normalizing (Exhibit 20). In other words, workers are increasingly willing to voluntarily leave one job for another. While seemingly trivial on the surface, taking a chance on a new employer represents an admirable leap of faith that most workers wouldn't have dreamed of doing when the labour market was weaker. Not only does it signal a healthier labour market and growing worker clout, but voluntary job hoppers also manage to extract an 8% salary boost on average. All of this is clearly momentous for wage growth.

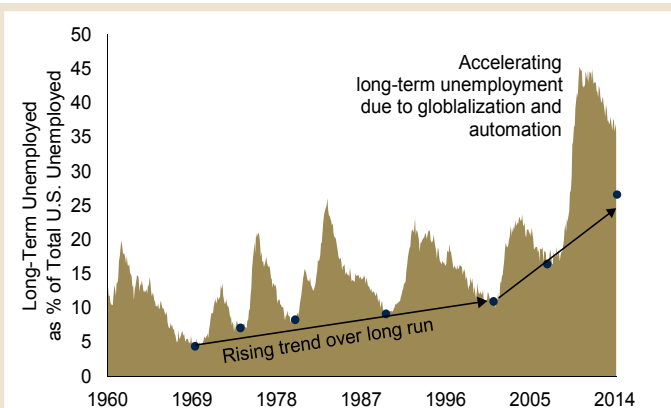
### C) Catch-up effect

Wage growth has been unusually poor in recent years. This is not entirely surprising given economic weakness, but it may have gone too far. Wages have undershot productivity growth by a cumulative 6.4% since the mid-2007 arrival of

<sup>7</sup> One study found that just 10% of the long-term unemployed find a new job in any month, whereas 24% drop out of the labour force altogether over the same period. The recent expiry of extended unemployment benefits should accelerate this process.

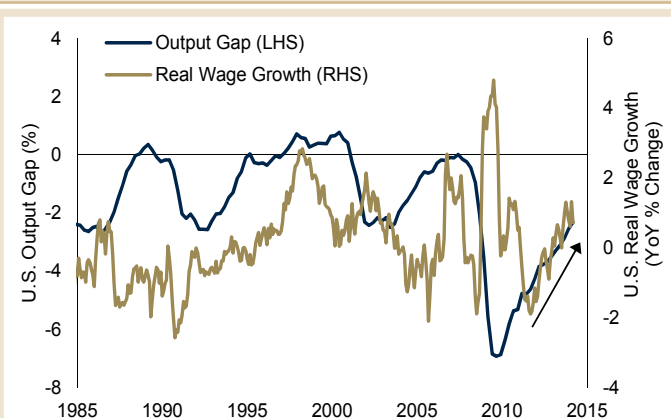
<sup>8</sup> Factors such as the job losses that result from globalization and automation are often cited, alongside the generalized acceleration in the rate of change at which various skills are valued.

**Exhibit 18: Significant long-term unemployment is increasingly normal**



Note: Long-term unemployment defined as unemployment lasting 27 weeks and over. Source: BLS, Haver Analytics, RBC GAM

**Exhibit 19: As output gap closes, real wage growth rises**



Note: Output gap is RBC GAM estimate. Real wage growth based on real average hourly earnings of production and non-supervisory workers. Source: Haver Analytics, RBC GAM

**Exhibit 20: More workers voluntarily changing jobs**



Source: Haver Analytics, RBC GAM

the financial crisis. Almost half of this is probably unrelated to the crisis and instead connected to a longer-term underperformance. But even after adjusting for this trend, we find that wages are 3.3% lower than they should be. They should eventually catch up. That's more than a year's worth of additional wage growth waiting to be ladled on top of the normal progression of salaries over the next few years.

**D) Accelerating wage growth**

Wage growth already appears to be picking up (Exhibit 21). Private-sector hourly wages are now rising by 2.25% per year, finally higher than inflation and much quicker than the 1.3% nadir of mid-2012. Historically, such upward trends can be sustained for three to four years, implying another 1.5 to 2.5 years of accelerating wages, followed by a multi-year period of growth near 4%.<sup>9</sup> Strikingly, the U.S. Treasury Department reports that personal income-tax receipts rose 10% annually as of the first quarter of 2014, signalling something is going very right on the employment/wage front. Higher minimum wages in several states have also been helpful.

The ravages of globalization and automation and the declining clout of unions may temper the sustainable trend to perhaps 3.5% hourly wage growth. On the other hand, the aforementioned potential for wages to “catch up” to their fair level could push wage growth above 4% for a few years. Over the long run, an aging population has the potential to induce wage-inflating labour shortages as seniors stop making but keep consuming.

**E) Wage intentions**

Finally, with a clear focus on the future, firms are planning to boost wages, and individuals also expect higher incomes down the road (Exhibit 22). These measures have spiked notably in recent months.

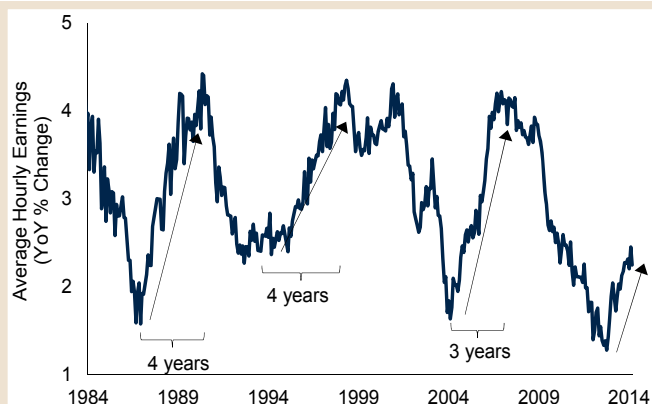
## Consumption implications

Economies are notoriously circular. Economic growth drives the labour market, the labour market drives spending, and spending drives the economy. The key is to ensure it is a virtuous rather than a vicious circle. At this juncture, the conditions appear ripe for the former. Faster growth promises to deliver more hiring and better wages, and these gains should, in turn, boost consumer spending, which represents a gargantuan 68% of U.S. GDP.

Consumer spending is not entirely anemic to begin with. To illustrate, auto sales are already running at 16 million annualized units – a remarkable rebound from a low of less than 10 million units in 2009. But there should be more gains

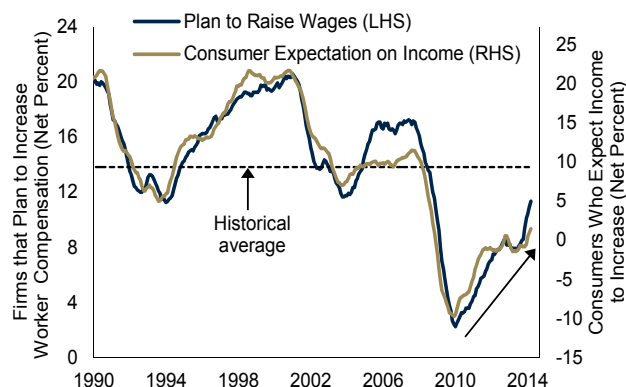
<sup>9</sup> Note that the wage growth for the average individual worker should rise more quickly than this since wages tend to go up across a career as the worker gains experience and tenure. This doesn't appear at the aggregate level since the effect is offset by the constant replacement of high-earning retiring workers with young entry-level workers.

**Exhibit 21: U.S. wages rising with further room to run**



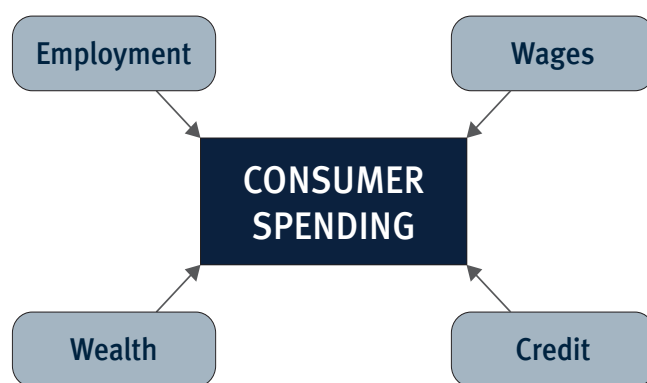
Note: Average hourly earnings of production and non-supervisory workers on private nonfarm payrolls. Source: Bureau of Labor Statistics, Deutsche Bank, RBC GAM

**Exhibit 22: Employers and workers both expect higher wages**



Note: 12-month moving average (12MMA) of percent of firms planning to increase wages less percent planning to decrease wages in the next three months. 12MMA of percent of consumers who expect income to increase less percent expecting income reduction. Historical average since 1990 for both series shown as one dotted line. Source: The Conference Board Consumer Confidence Survey, NFIB Small Business Economic Survey, RBC GAM

**Exhibit 23: Consumption drivers**



Source: RBC GAM



to come, with a figure in the 17 to 18 million range entirely achievable over the next few years.

More generally, an acceleration in hiring should add another 0.75 percentage point to the potential spending growth rate,<sup>10</sup> and surging wage growth should add a further 1.25 percentage points relative to the current pace. Together, this argues for nominal income growth as high as 5.75% per year.

Of course, jobs and wages aren't the only factors determining spending growth (Exhibit 23).

Spending money can also come out of savings or credit. Both of these channels also show improvements. U.S. household wealth has more than reclaimed its losses from the financial crisis, with assets now at all-time highs and debt below pre-crisis levels (Exhibit 24). Household credit growth is finally rising (Exhibit 25)

<sup>10</sup> A normalization of hours worked could contribute a further 0.4 percentage point per year over three years, but we do not budget for this in our forecasts.

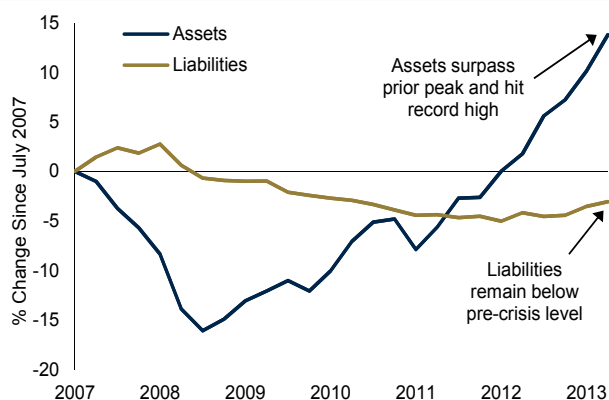
and credit is becoming more readily available. Together, these can theoretically boost spending growth by a further 0.75 percentage point annually over the next few years (though not permanently).<sup>11</sup>

Altogether, the combination of faster hiring, zippier wages, rising wealth and rising credit suggests nominal consumer spending could clock a remarkable 6.5% annual growth rate within a few years – more than twice the recent rate – without even accommodating any wage catch-up. A more conservative set of assumptions point to no less than 5.5% spending growth.<sup>12</sup>

<sup>11</sup> We assume a 5% wealth effect, mapped onto household wealth that rose \$3.7 trillion more quickly over the past year than the year before, therefore equalling \$185 billion in additional wealth-based spending. This is presumed to trickle out over the next three years, worth 0.5ppt of additional spending per year. For credit, we assume that the slight acceleration so far is worth an extra 0.25ppt of spending growth per year.

<sup>12</sup> This scenario acknowledges that positive wealth effects could fail to materialize and that some of the marginal income could be saved.

**Exhibit 24: U.S. household wealth boosted by soaring asset valuations**



Note: Percentage change of assets and liabilities of households and non-profit organizations since July 2007 when asset value peaked.  
Source: Federal Reserve Board, RBC GAM

**Exhibit 25: U.S. household credit begins rising**



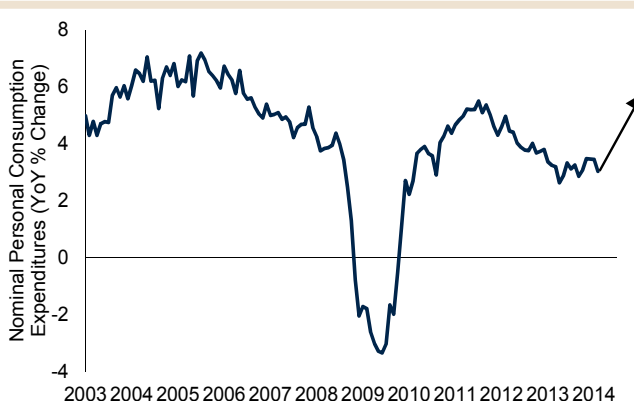
Source: Haver Analytics, RBC GAM

**Exhibit 26: RBC GAM forecasts**

	ANNUAL GROWTH		
	Current (%)	Forecast (%)	Acceleration (ppt)
Employment	1.5	2.25	0.75
Wages	2.25	3.5	1.25
Income	3.75	5.75	2.0
Spending	3.0	5.5 – 6.5	2.5 – 3.5
Real Spending	1.5	3.5 – 4.5	2.0 – 3.0

Note: Stylized annual % change in nominal terms unless otherwise indicated. Forecast is achievable growth rate over next several years.  
Source: Haver Analytics, RBC GAM

**Exhibit 27: Consumer spending can grow more quickly**



Source: BEA, Haver Analytics, RBC GAM

In real terms, this range translates to inflation-adjusted consumer spending growth of about 4.0% (Exhibit 26). If this seems like a fantastical claim given the recent era of barely more than 2% growth, note that it happens surprisingly often when the economy is finally permitted to spread its wings. The mid 2000s managed this growth rate, and the late 1990s and mid 1980s both managed to exceed it for multi-year stretches (Exhibit 27).

### **Inequality complications**

There are a few lingering matters that merit addressing.

Inequality has increased over the past several decades as a disproportionate share of economic gains has accrued to the top income earners. As a result, the median real U.S. wage – a wage that is better than that earned by 50% of Americans, and worse than the other 50% – has tended to rise only around half as fast as the average real wage. This indicates that high income earners have enjoyed faster wage growth than the rest. We presume this pattern will persist, though there is some evidence that policymakers are awakening to it and may seek to halt its advance.

The lagging income of the median worker is socially troubling. But economists struggle with whether and how to factor it into their aggregate growth and consumption forecasts. The short answer is that the effect on aggregate growth seems not to be very large. Money isn't disappearing altogether – it is merely being allocated less evenly. A slightly longer answer would acknowledge a modest drag on spending from this trend, since wealthier people tend to save a larger fraction of their income. For now, the effect is slight enough that it doesn't materially cloud our calculations.

### **Profit margin hit**

Inevitably, higher wages do not benefit everyone. Most obviously, higher wages could nibble away at corporate profit margins as resources are diverted to pay for higher labour costs. However, carnage is unlikely: a large chunk of the increase in wages will come from faster productivity growth, which will actually benefit firms. And the higher wages will eventually trickle back to corporate cash registers in the form of improved sales.

### **Bottom line**

The ongoing process of economic normalization should ultimately result in stronger hiring and faster wage growth, leading to improved consumer spending.

We forecast 200,000 to 300,000 new U.S. jobs per month over the next few years, and see nominal wage growth rising to 3.5% per year, if not beyond. With further help from rising wealth and readier access to credit, nominal consumer spending growth should eventually double to around 6% per year, or 4% in real terms.

While this report focuses on the U.S. economy, there is tentative evidence that other developed regions are also improving. Canada, the U.K. and even the Eurozone are also managing rising compensation growth, with nominal wages finally outpacing inflation in each.

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