

# Inflation and the Labor Market

**Jared Bernstein**

bernstein@cbpp.org

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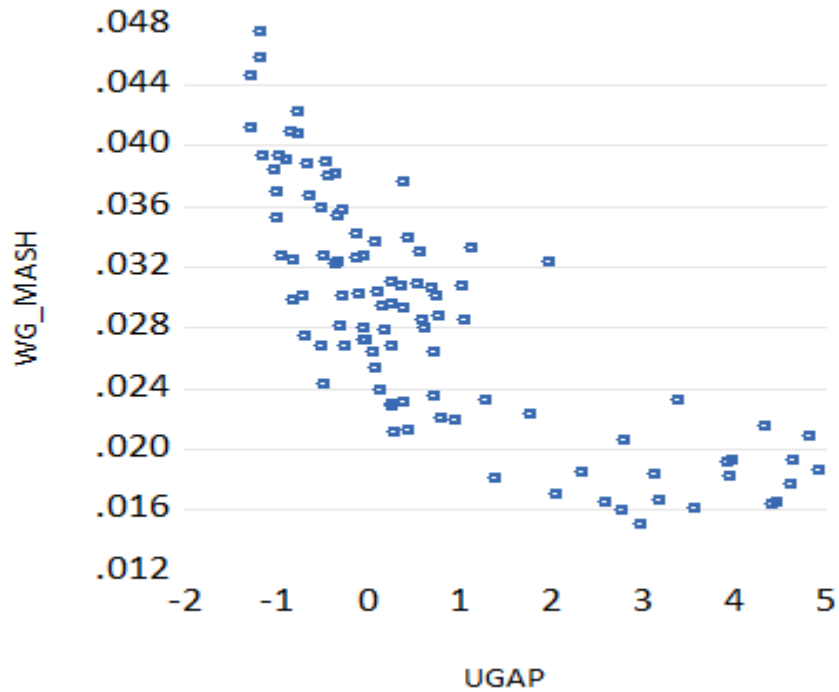
*On The*  
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# Key points

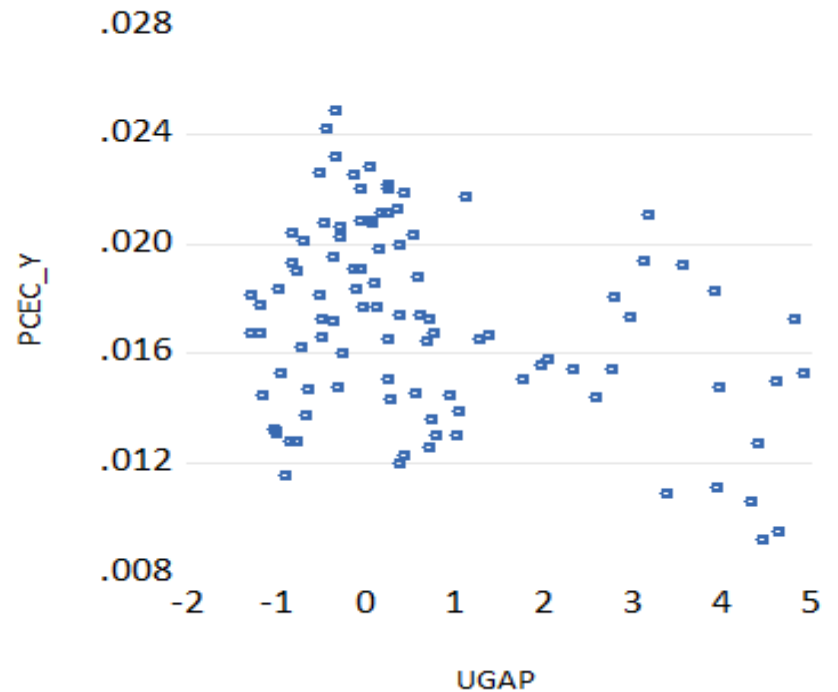
- The price Phillips curve is flatter, not dead.
- The wage PC is steeper than the price PC; less wage/price passthrough.
- The labor market explains a recently increasing share of the variance in prices.
- We have an opportunity to tap the benefits of full employment!
- This gains are not just about (equalizing) wage pressure. They're about labor market opportunities for people otherwise left behind.

# Wage PC > Price PC

Wg growth (yr/yr) and ugap (u-u\*), 1995-2019



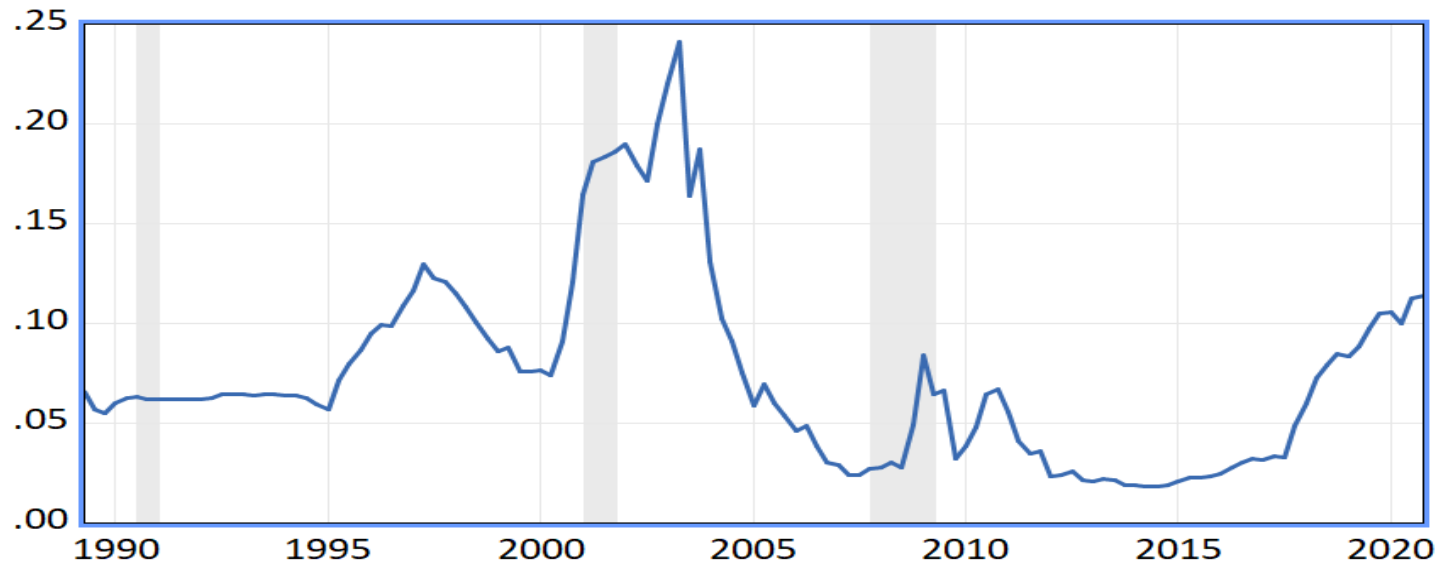
Core PCE (yr/yr) and ugap (u-u\*), 1995-2019



# How much of $\text{var}(\text{inflation})$ does $u-u^*$ explain?

Regress  $\text{dlog}(\text{core infl})$  on infl expectations; apply 20-yr rolling regression to residual series with  $u-u^*$  regressor; pull off R-sq's.

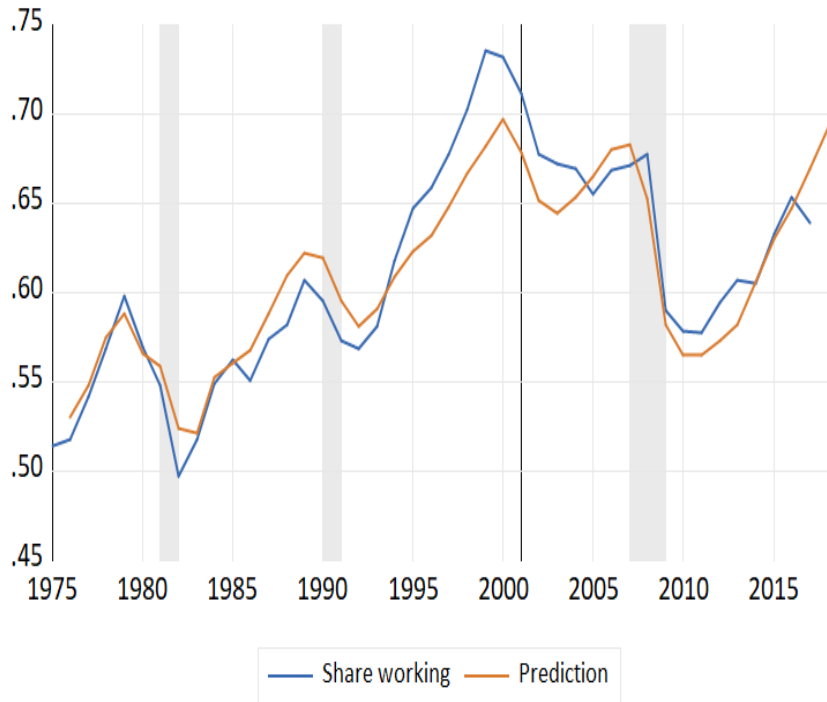
R-sq's from 20-yr Rolling Regs ( $u-u^*$ )



# These dynamics create an opportunity!

- Yes, flat Phill, but at least as important:
  - Higher inequality
  - Long-term real wage stagnation for mid/low wage earnings
  - People, places left behind
  - Bargaining power deficits offset by full employment!
- Bernstein/Bentele: “...changing inflation dynamics, in tandem with higher wage, income, and wealth inequality, should create an asymmetry in the Fed’s reaction function, as such dynamics elevate the benefits of full employment and diminish the risks of inflationary pressures.”
- David Mericle (GS): “...a tight labor market poses less risk today and policymakers can exploit the disinflationary effects of non-cyclical forces to run the labor market hot, as long as inflation expectations stay anchored.”

Quintile 1, Prime-age workers, share working



|                        | High-pressure |            |            |            |
|------------------------|---------------|------------|------------|------------|
| <i>All, Quintile 1</i> | Share wrk     | annual hrs | hrly wg    | all erns   |
| 1993                   | 58%           | 1,424      | \$9.87     | \$8,160    |
| 2000                   | 73%           | 1,611      | \$11.35    | \$13,380   |
| <i>In chng</i>         | <b>23%</b>    | <b>12%</b> | <b>14%</b> | <b>49%</b> |

| <i>African-Americans, Q1</i> | Share wrk  | annual hrs | hrly wg    | all erns    |
|------------------------------|------------|------------|------------|-------------|
| 1993                         | 42%        | 1,165      | \$7.24     | \$3,531     |
| 2000                         | 68%        | 1,511      | \$9.69     | \$10,017    |
| <i>In chng</i>               | <b>49%</b> | <b>26%</b> | <b>29%</b> | <b>104%</b> |

| <i>African-Americans, Q1</i> | Share wrk   | annual hrs  | hrly wg    | all erns    |
|------------------------------|-------------|-------------|------------|-------------|
| 2007                         | 59%         | 1,552       | \$10.38    | \$9,557     |
| 2011                         | 44%         | 1,351       | \$9.89     | \$5,895     |
| <i>In chng</i>               | <b>-30%</b> | <b>-14%</b> | <b>-5%</b> | <b>-48%</b> |

In a Tight Labor Market, a Disability May Not Be a Barrier

# 'I Thought I Was Done For': Tight Job Market Opens Doors for Ex-Convicts

News

## Ex-Convicts Become Attractive Hires in Tight Labor Market

Second chances are becoming prevalent as restaurant chains and other businesses grapple with record unemployment rates.

By Leslie Patton | July 17, 2019 at 12:39 PM

## In tight labor market, employers going to great lengths to attract workers

By Katie Johnston Globe Staff, April 14, 2019, 6:48 p.m.



## Lower-Income Americans Are Increasingly Job Hopping

A crucial driver of job changes is the prospect for higher wages

