

From the desk of Chief Economist Beth Ann Bovino

Inflation: The 162,000-job question

It was initially reassuring to see August nonfarm job gains bounce back to 162,000, just over the post-war pace of 128,000 per month and much stronger than average payroll gains of just 49,000 per month in 2025.

So, what's the catch?

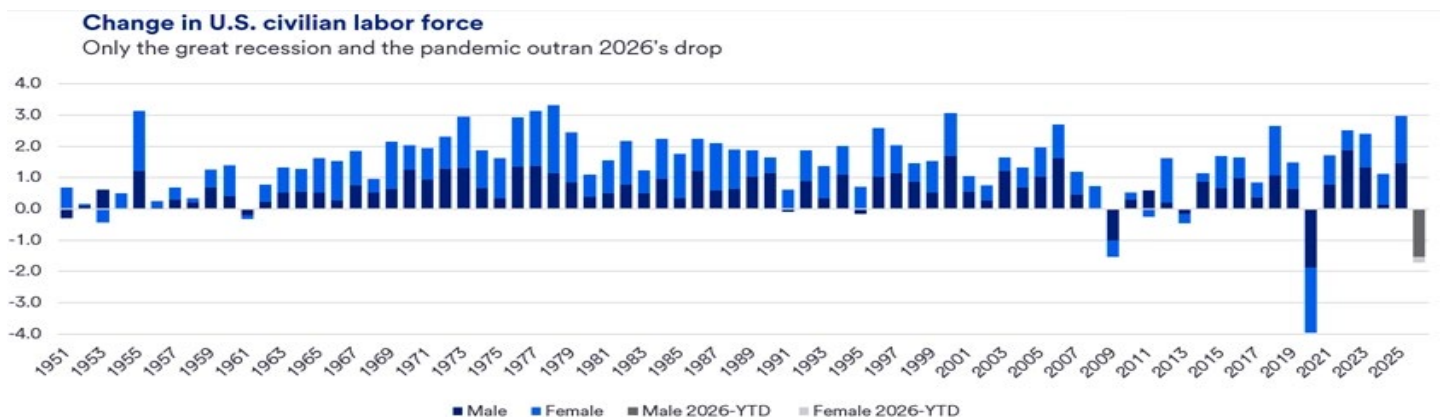
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Beth Ann Bovino, chief economist, U.S. Bank

The wage outlook hinges less on headline payroll growth than on whether labor supply expands alongside hiring. This is not the case today.

This resource (labor) has been in sharp decline, largely from demographic changes: baby boomers and record-breaking early retirees, a birth rate in fast decline and out-migration.



Sources: U.S. Bank Economics, Bloomberg.

Since the post-World War II baby boom, the labor supply has shrunk as the population ages. Record-breaking early retirements (age 55 and over) further deplete the labor force.

Since 1972, the U.S. birth rate has been in fast decline, averaging 1.9, below the 2.1 birth replacement level needed to maintain a stable population without immigration. In fact, the Congressional Budget Office (CBO) predicts that without immigration, the population will begin to shrink by 2034.

That increases wages. I am not one to complain about a larger paycheck or more jobs. But higher wages lead to higher prices for products as businesses pass through costs. Which then leads the Fed to further tighten policy.

As a Phillips-curve-style rule of thumb, nominal wage growth equals trend productivity growth plus expected target inflation (2%) augmented by a labor market tightness measure. In other words, today's slower labor-force growth means even historically normal payroll gains could create more inflation pressure than in earlier decades.

If the clock was turned back and payrolls were instead growing at a normal pace of about 125,000, while the labor share and productivity levels didn't change, what would happen? Instead of a 4.1% unemployment rate in August, it would be closer to 3.0%, leading to higher wages and more spending at even higher prices.

With the Fed stepping in, once again, to take that punchbowl away!

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