April 7, 2026

Dutta’s Monetary Thoughts

Wage pressure fading

Neil Dutta

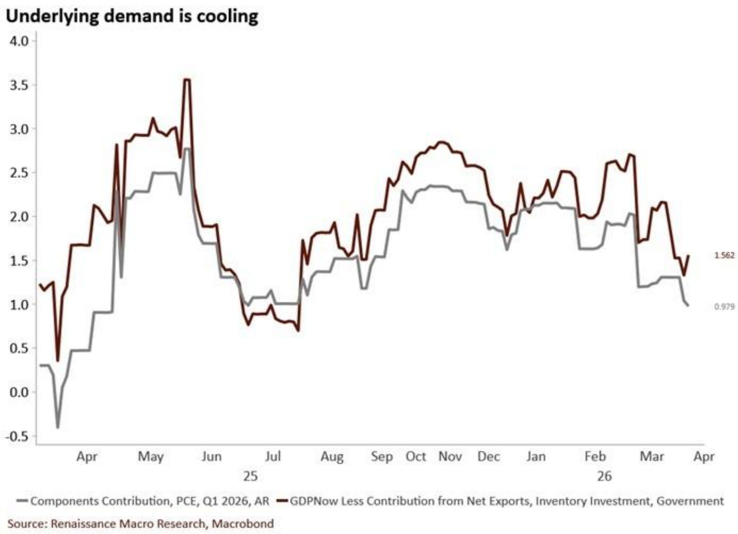
Resilient equity markets

Stock markets have been remarkably resilient throughout the conflict with Iran. US equities are barely off five percent since the conflict broke out. For reference, when oil prices jumped this much over a five-week period in the first Gulf War (1990), US equities had declined nearly 15 percent.

Given the optimism in tech investment and the improvement in the US terms of trade from a rise in energy prices, we may well be at a point where it no longer makes sense to sell because of Iran-related news. The asymmetry of this should not be lost on anyone. The war is less bad for the US than other countries though the US itself is a major participant in the war.

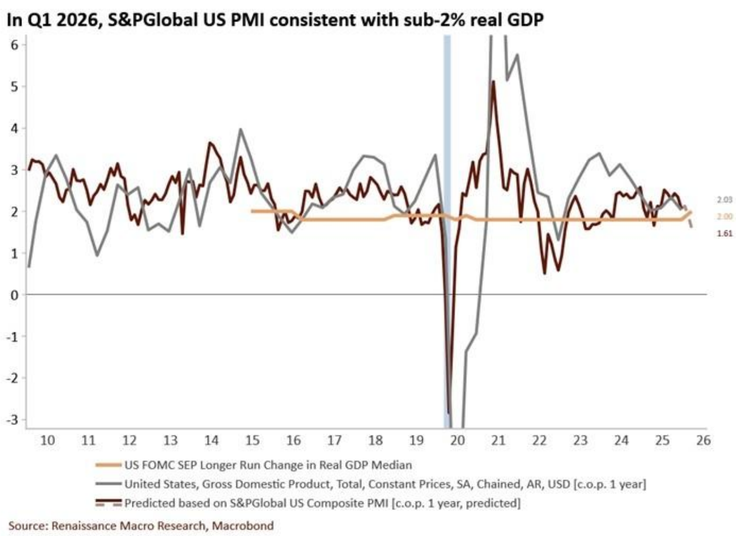
I think this relative optimism misses the mark for two reasons. First, countries in Asia will suffer physical shortages now, but eventually, oil will find a way to those countries, driving energy prices up. Commodities will go to where they are needed most. This means the US will feel pain the longer the war drags on. Second, I think optimists are assuming a very quick recycling process of oil related spending & income. Consumers lose it much faster than the oil producers use it.

Stepping back, deteriorating conditions in Iran are probably not good enough of a reason to sell at this point. Stocks are about three things: (1) rates, (2) earnings, and (3) the risk premium. Rates appear to have stabilized with 10s off their highs from March. You’ll need to see growth and earnings expectations slide for US stocks to suffer a more material decline.



Data review: GDP no great shakes

Speaking of growth expectations, they ought to be getting revised down. Traditional bean counts are sluggish in Q1 following a soft retail sales report. Control sales and food services were not nearly as strong after adjusting for inflation. Tracking estimates for Q1 real consumers' spending are running just 1.5 percent.



We find similar results when we use PMI data. In March, the S&PGlobal US Composite PMI slid to its lowest level since May 2025. A regression translating the PMI into yearly changes in GDP growth is consistent with just 1.6 percent real GDP growth. This is below the Fed's longerrun potential estimate of 2.0 percent.

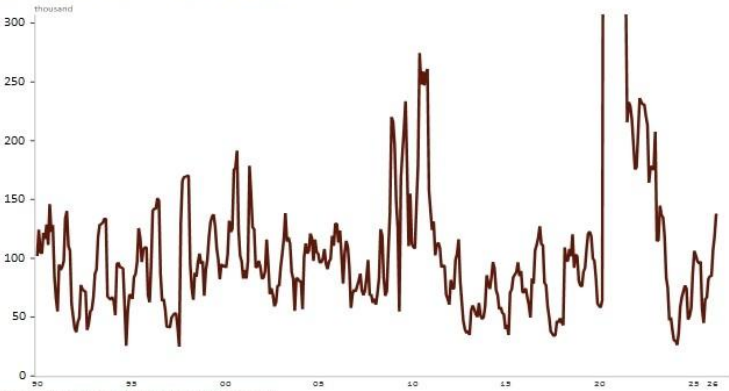
Now, there has been improvement in manufacturing activity and we have also seen capacity come out of the system. However, I would not get carried away here. On their own, metrics like the ISM Manufacturing PMI and factory production are still consistent with barely 2 percent real GDP.

Don’t be swayed by payroll growth

With the breakeven rate on employment declining, we need to adjust our standard for what constitutes a good payroll number. Still, I would not be seduced by the seemingly strong print in March.

First, payroll data are increasingly volatile. Since June 2025, payrolls have swung between negative and positive every other month. The standard deviation in monthly payroll growth has clearly picked up in recent quarters.

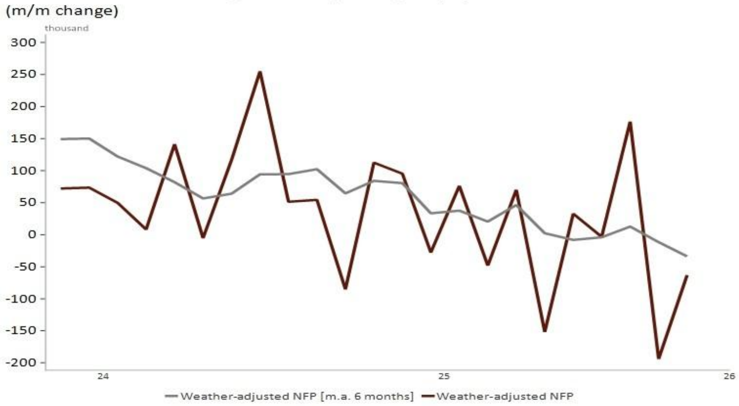
Payroll swings have picked up in recent quarters
(Nonfarm payroll, m/m chg, 6m rolling std devn)



Source: Renaissance Macro Research, Macrobond

Second, weather has been a big driver in recent months. Using [a statistical model](#) from the Federal Reserve Bank of San Francisco, favorable weather conditions have played an important role inflating the payroll count, adding 150,000 on average over the last two months. This model likely overstates things, but nonetheless, in the absence of this weather tailwind, the trend in employment has been getting worse, not better.

Weather has been doing the heavy lifting on payrolls
(m/m change)



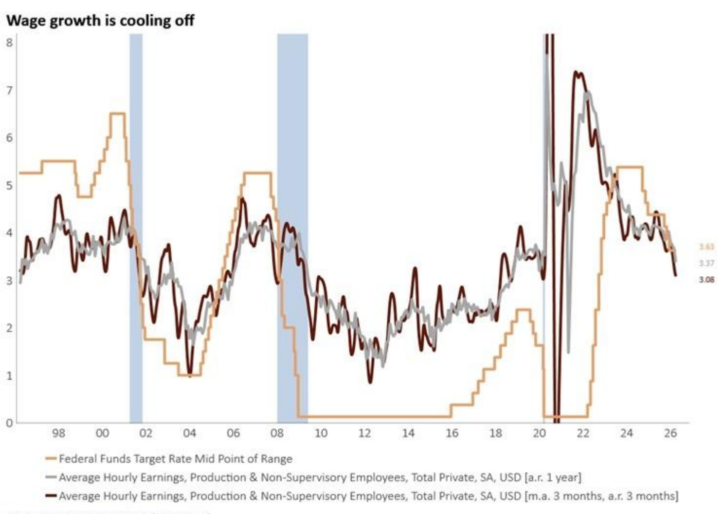
Source: Renaissance Macro Research, Macrobond

Third, hiring intentions haven't exactly been buoyant. According to NFIB, plans to increase employment remain at the low-end of their range over the last few years. The S&P Global Composite PMI tells a similar tale while consumers see, on net, fewer jobs over the next six months.

In short, there is little reason to assume payroll growth is perked up, and I'd question whether conditions are stabilizing in any material sense.

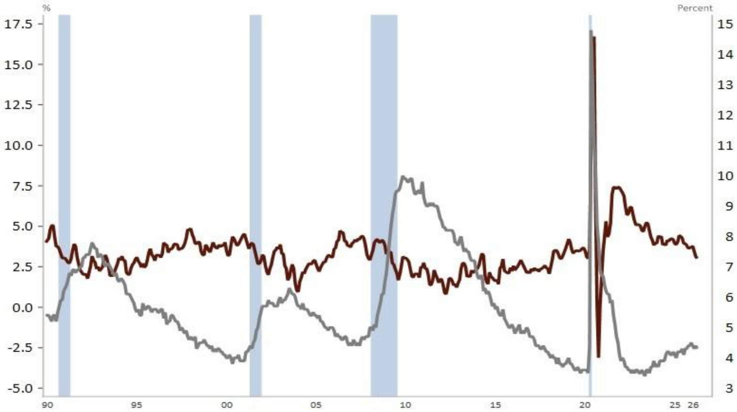
Labor lacks power

The surest sign of a tight labor market is accelerating wage growth, and there is very little evidence for this now. The momentum for workers just isn't there.



Average hourly earnings for nonsupervisory workers are up 3.4 percent over the last 12 months. The momentum, which I define as the three-month annualized rate of the three-month average is just 3.0 percent. With productivity growth trending around 1.5 to 2.0 percent, wage growth is not consistent with inflationary pressure from the labor markets.

Wage momentum fades even as unemployment holds steady



United States, Unemployment, National, 16 Years & Over, Rate, SA (Right axis)
AHE, Production & Non-Supervisory Employees, Total Private, USD (Left axis) [m.a. 3 months, a.r. 3 months]

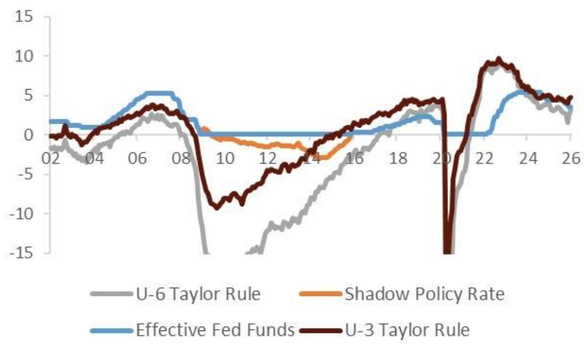
Source: Renaissance Macro Research, Macrobond

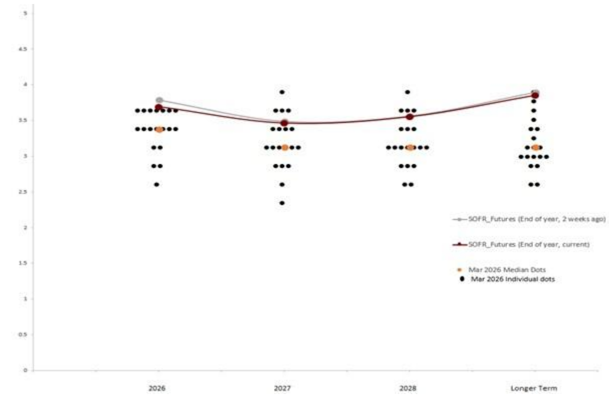
What's interesting about this is that wage growth has cooled even though the U3 jobless rate has been essentially unchanged for the last year. Perhaps NAIRU is lower?

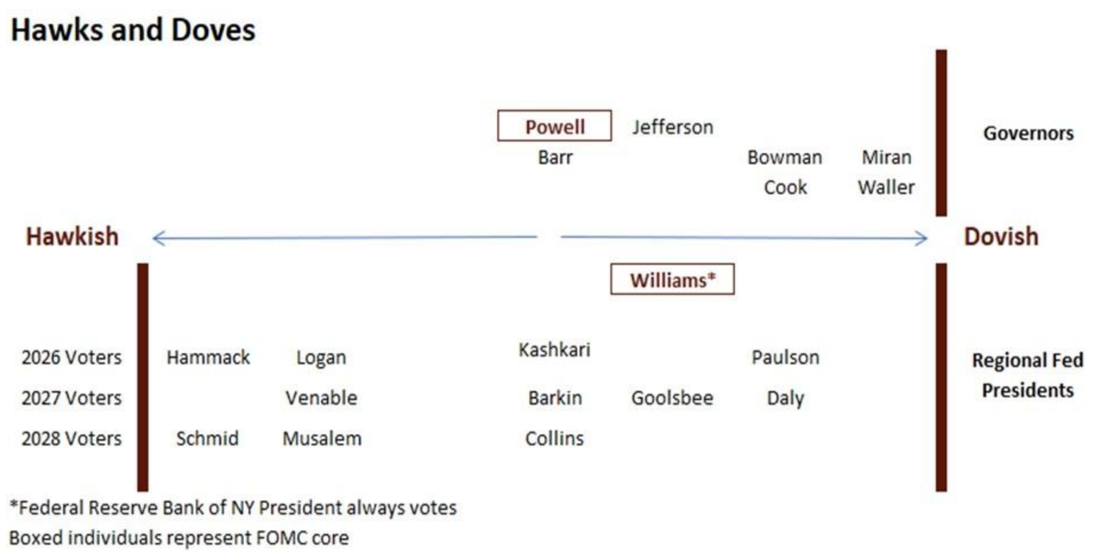
Importantly, the slowing in wage growth is more acute for service-providing industries. The momentum under wage growth for private service providing nonsupervisory workers has slowed to just 2.5 percent SAAR. The slowdown is especially pronounced in retail trade, professional & business services, and private education & health services. This is important because most of the nontariff gap between core inflation and the Fed's target is in non-housing services prices.

Bottom-line: There is no inflationary pressure coming from the US labor market and that limits the prospect of the market pricing in hikes this year.

Monetary metrics

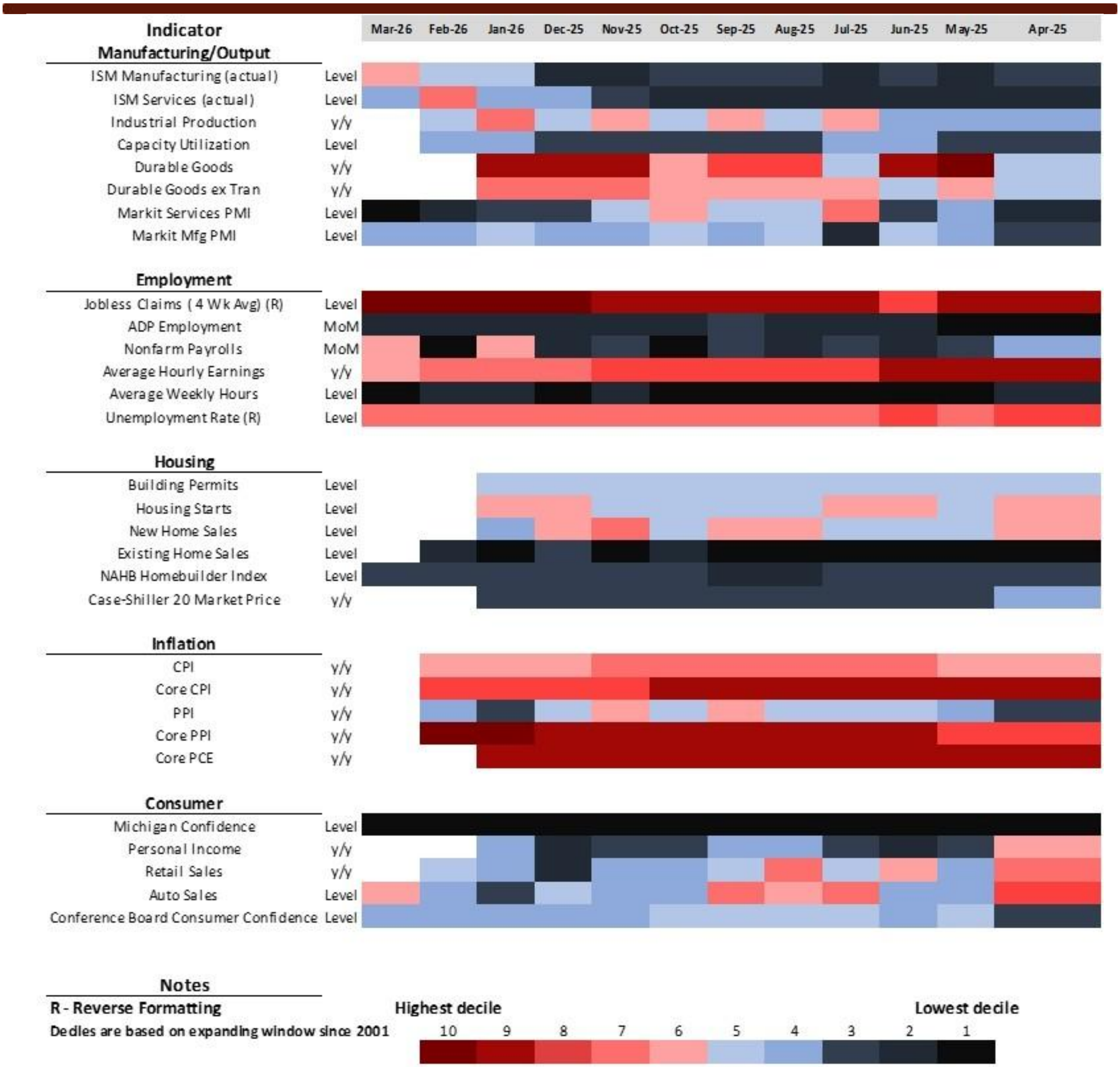




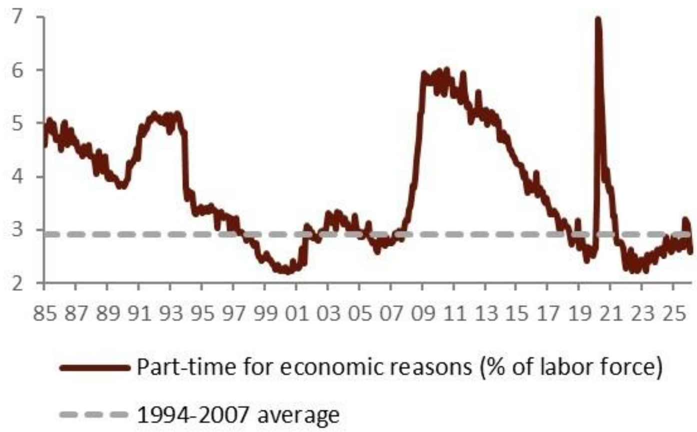


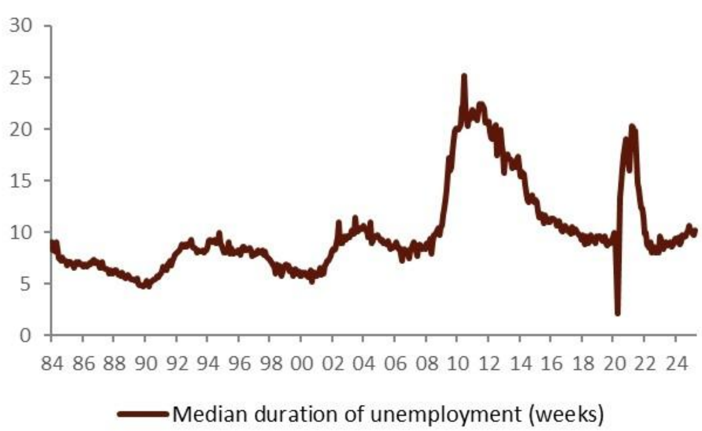
FOMC Forecasts	Median				Central Tendency			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.4	2.3	2.1	2.0	2.2–2.5	2.0–2.4	2.0–2.3	1.8–2.0
December projection	2.3	2.0	1.9	1.8	2.1–2.5	1.9–2.3	1.8–2.1	1.8–2.0
Unemployment rate	4.4	4.3	4.2	4.2	4.3–4.5	4.2–4.4	4.0–4.4	4.0–4.3
December projection	4.4	4.2	4.2	4.2	4.3–4.4	4.2–4.3	4.0–4.3	4.0–4.3
PCE inflation	2.7	2.2	2.0	2.0	2.6–3.1	2.0–2.3	2.0	2.0
December projection	2.4	2.1	2.0	2.0	2.3–2.5	2.0–2.2	2.0	2.0
Core PCE inflation	2.7	2.2	2.0		2.5–2.8	2.0–2.4	2.0	
December projection	2.5	2.1	2.0		2.4–2.6	2.0–2.2	2.0	
Projected policy path								
Fed funds rate	3.4	3.1	3.1	3.1	3.1–3.6	2.9–3.6	2.9–3.6	2.9–3.5
December projection	3.4	3.1	3.1	3.0	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5

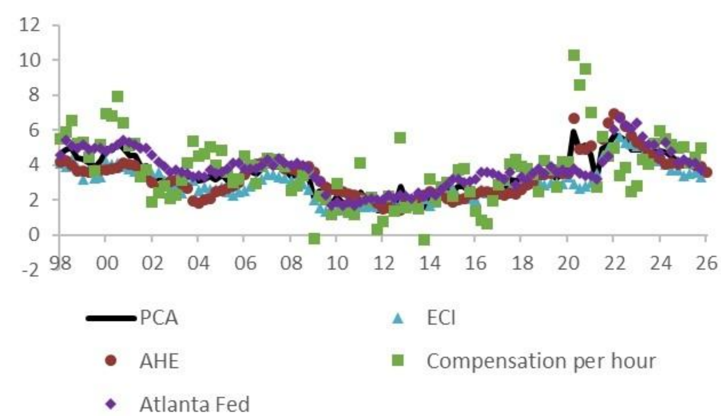
High frequency data heat-map

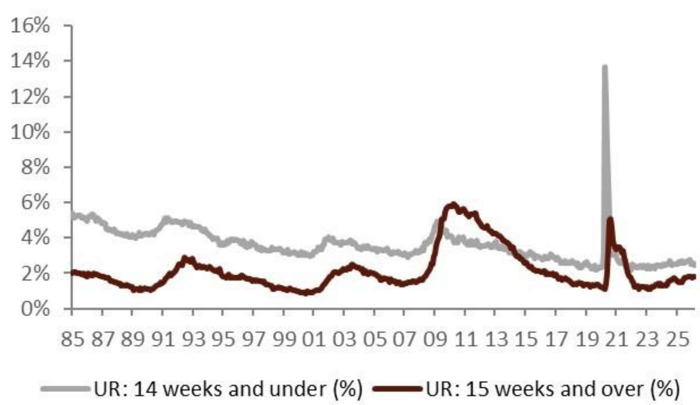


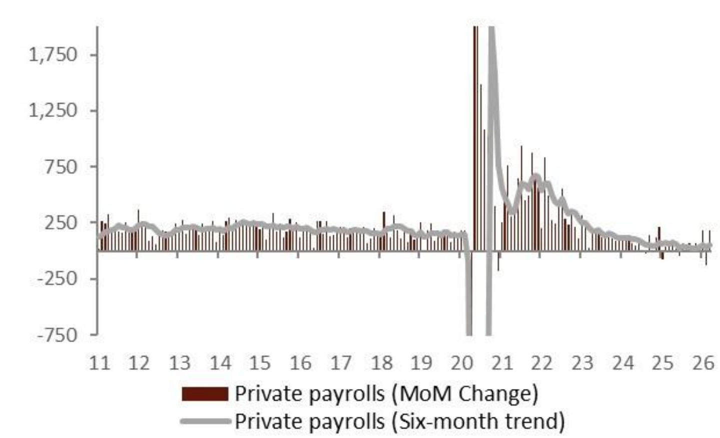
Labor market indicators



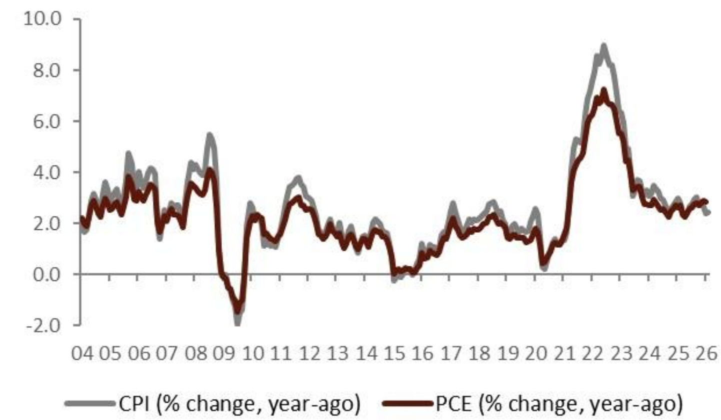


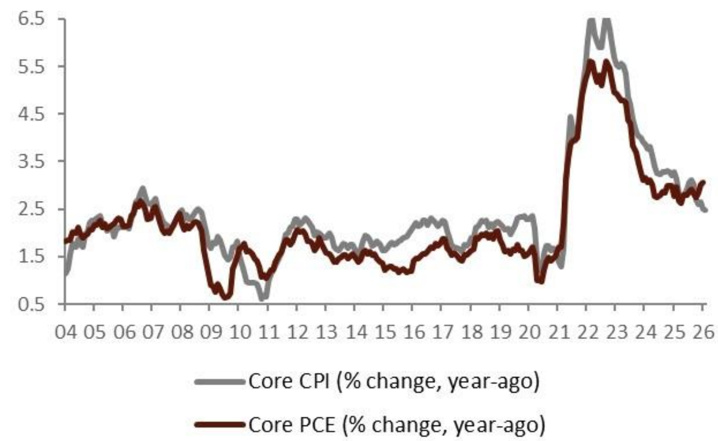


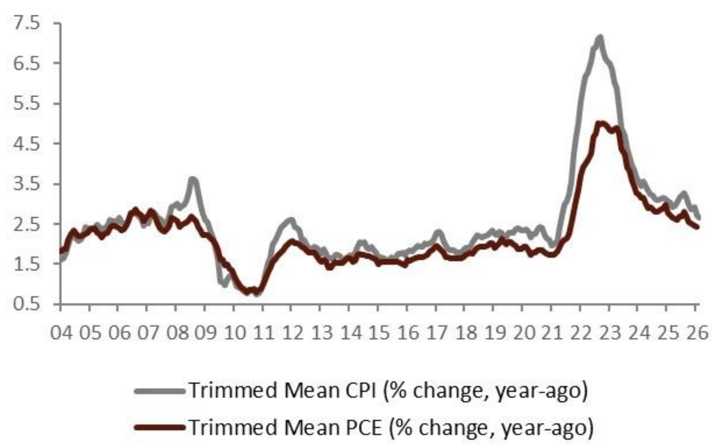


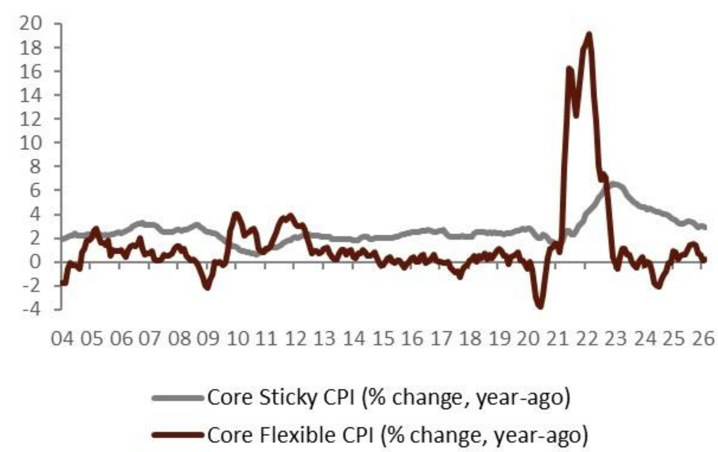


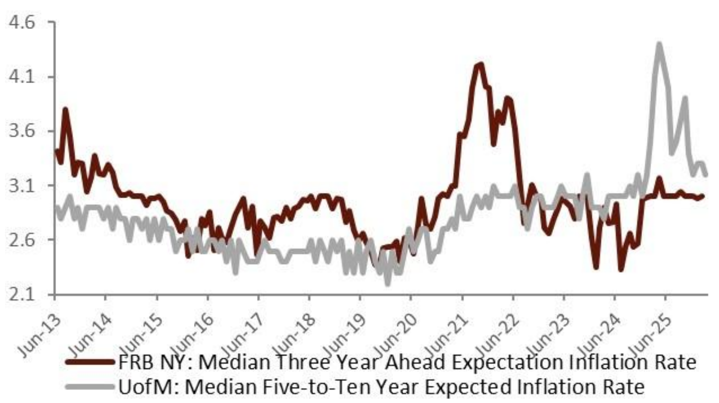
Inflation indicators

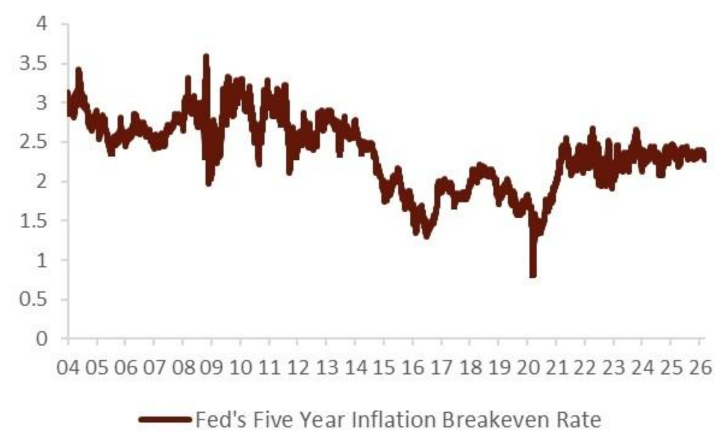




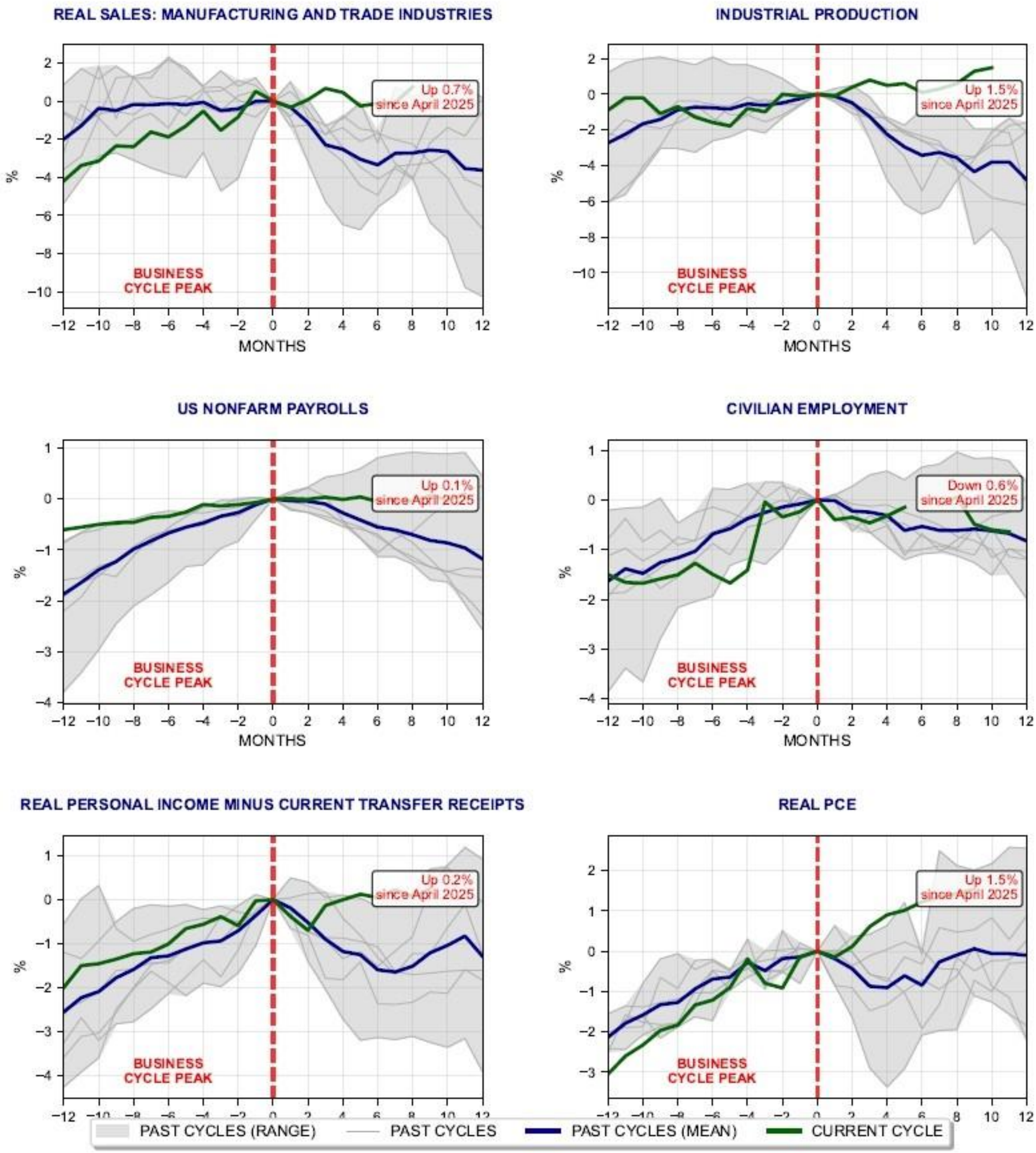






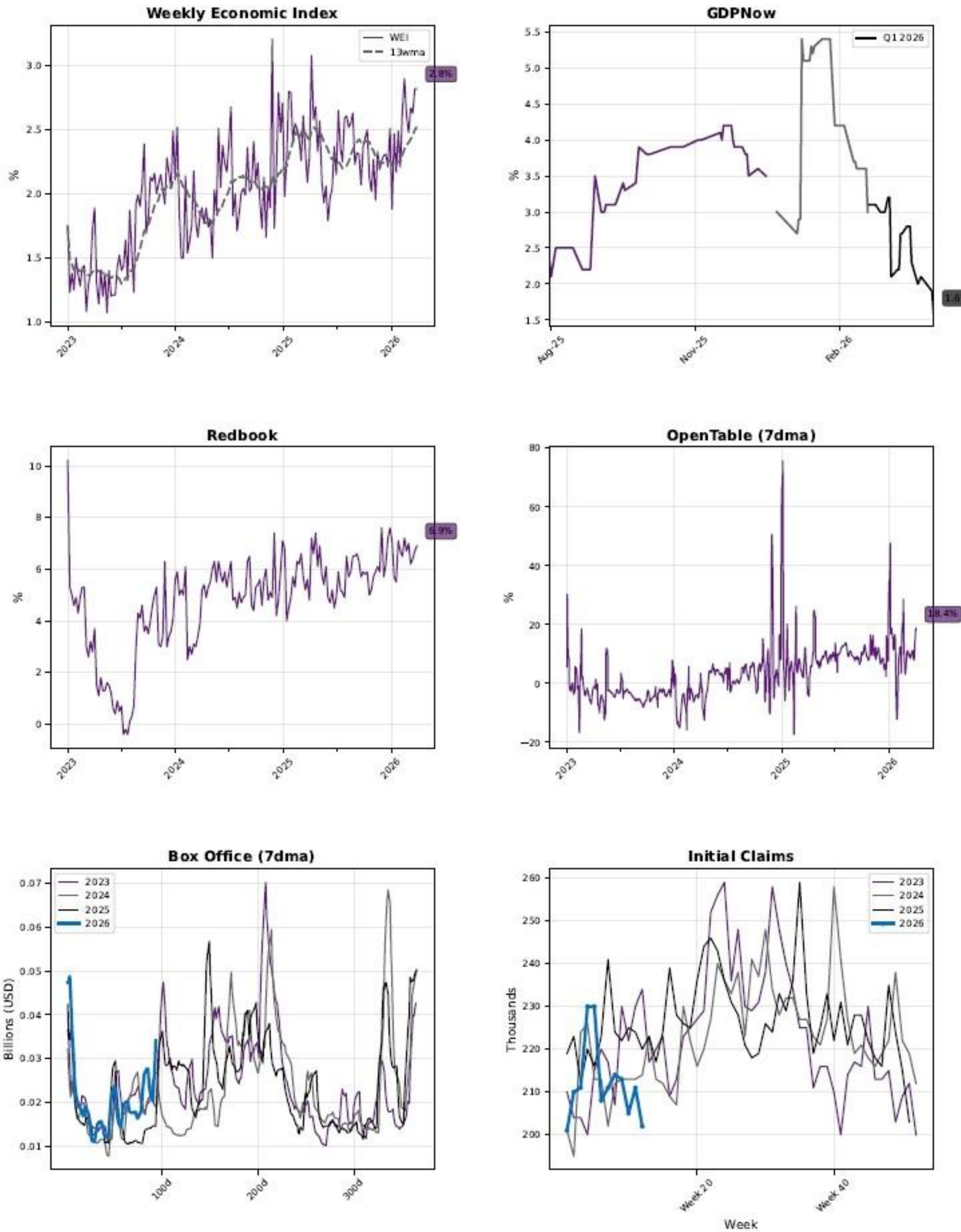


NBER RECESSION INDICATORS DASHBOARD



Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard



High Frequency Economic Dashboard