

WEEKLY MARKET RECAP: November 06 – November 10, 2023

Happy Friday, traders.

Welcome to our weekly market wrap, where we look back at these last five trading days with a focus on the market news, economic data and headlines that had the most impact on the financial market – and may continue to into the future for the US Dollar and other key correlated assets.

In last Wednesday's FOMC press conference, Fed Chair Powell acknowledged that wage inflation has "come down significantly" but suggested economic and labor market conditions likely need to come further into balance to bring inflation back to target. With this in mind, some may fear that continued labor market strength could stall further progress on wage growth and inflation. Importantly, the October Jobs report showed a welcomed decline in average hourly earnings (AHE) to 4.1% y/y, down meaningfully from last year's peak of 5.9%. That said, while wage growth should normally be above CPI inflation due to productivity gains, 4.1% growth still seems higher than what is consistent with the Fed's 2% PCE target. However, as pandemic related distortions continue to recede from the labor market, wage growth could see further moderation even if the labor market remains tight.

Prior to the pandemic, shifts in the composition of the labor market, measured by each sector's share of weekly hours worked, had little impact on wages. However, the labor market shifted rapidly at the onset of the pandemic as lower paying jobs in industries like leisure and hospitality lost share to higher paying sectors, pushing wages ~2% higher than they would have been without this shock. While the impact of this distortion has eased, further normalization could take another ~50 bps out of wage growth if the composition of the labor market returns to its pre-pandemic mix.

With wage growth already cooling, additional dampening from a reset in the share of hours worked across sectors will be welcomed by the Fed as a sign that inflationary pressures can moderate despite a tight labor market. This, along with further evidence of a slowing economy, makes it more likely that we have seen the last of Fed rate hikes.

Thanks for reading! Have a great weekend.

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