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## Don't Fear the Reaper

On Wall Street, sometimes good news is bad news. When wage growth causes a one-day drop of over 1,000 points in the Dow, yes, good news for the economy does not translate to great news for stocks. As reported a few weeks ago, real wage growth has shown some strength and, with that strength, the specter of inflation. For those who remember the 1980's, inflation's reputation as the cause of stagnation in the economy and the reaper of poor economic performance is still on their minds. Are we entering a new era of inflation?

To answer this question, let's consider the last period of high inflation in the United States — the 1970s and 80s — and consider any potential parallels to today's conditions. Those of us who are well versed in economic jargon might remember "cost-push" inflation. This type of inflation is caused by increasing prices of intermediate goods. In essence, producers pass on their high material and labor costs to the consumer. But input prices have been relatively flat recently — commodity prices in the 80's grew by 2.9% annually whereas they have only grown by 1% annually since 2010.

Aside from rising material prices, there is the possibility that rising wages may push up prices across the board. But even close to full employment, much has changed in the labor market. In the 80's, employees had far more bargaining power than they do now. This was especially true in the private manufacturing sector where nearly 1 in 4 (27%) employees in the New York City region were supported by union bargaining power. This number has now dwindled to less than 9%. In addition, the region's private construction sector has also de-unionized, dropping from 39% in 1983 to 26% in 2017. The regional rate of union membership is still higher than the national average but only a handful of industries remain steadfastly unionized.

Advances in real wages have only been very recent. In fact, taking the long view, wages adjusted for inflation over the past few decades had gone nowhere and, in some industries, actually declined. The chart below shows the national wages of select industries in 1982 dollars. The industries shown account for roughly 25% of the employment in the region. Real earnings in the construction industry have grown by only 0.15% annually since 1975, trailed by retail workers with 0.04% growth,

## THE WATCHLIST

Economic Variables		Current - One Year Trend	
<b>UNITED STATES</b>			
Real GDP [Annual Rate]	Q4 2017	2.6%	
Unemployment Rate	Jan-18	4.1%	
Consumer Price Index [Annual]	Jan-18	2.1%	
Gasoline Price [Regular]	Feb-18	\$2.60	
<b>PORT AUTHORITY REGION</b>			
Regional Employment [NY MSA]	Dec-17	9,673	
Consumer Price Index [Annual]	Jan-18	NA	
Port District Exports [\$Bill]	Dec-17	\$11.51	
Port District Imports [\$Bill]	Dec-17	\$23.23	
Case-Shiller Home Price Index	Dec-17	5.7%	
<b>Commercial Real Estate Asking Rent</b>			
Midtown	Q4 2017	\$83.57	
Downtown	Q4 2017	\$62.76	

Figure 1 New York MSA % of Employees having Union Representation by Industry

INDUSTRY	1983	2017	Change
Construction	30.40%	15.70%	-14.70%
Manufacturing, nondurable goods	28.40%	10.10%	-18.30%
Manufacturing, durable goods	32.10%	10.10%	-22.00%
Wholesale Trade	10.90%	4.80%	-6.10%
Retail Trade	9.70%	5.10%	-4.60%
Transportation	53.60%	25.50%	-28.10%
Hospitals	22.60%	15.20%	-7.40%
Public Administration	38.30%	33.60%	-4.70%
Educational Services	43.70%	33.30%	-10.40%

Source: Georgia State University Unionstats

and restaurant workers who experienced negative growth of - 0.25%.

Changes to minimum wage standards may put upward pressure on labor costs. But many emphasize the progress made in increasing the minimum wage for workers at the lowest end of the wage spectrum did not yield large real earnings boosts for everyone. According to the Economic Policy Institute, minimum wage increases in 2018 in New Jersey will expect an additional \$39.7 million in increased wages for 98,000 workers (roughly 2.4% of employed) and New York will see an estimated \$473 million in increased wages impacting 515,000 workers (6.2% of workforce)<sup>1</sup>. Despite the legislatively enacted increases in minimum wages, minimum wages have yet to reach their inflation adjusted 1970's levels.

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# MONTHLY ECONOMIC INDICATORS

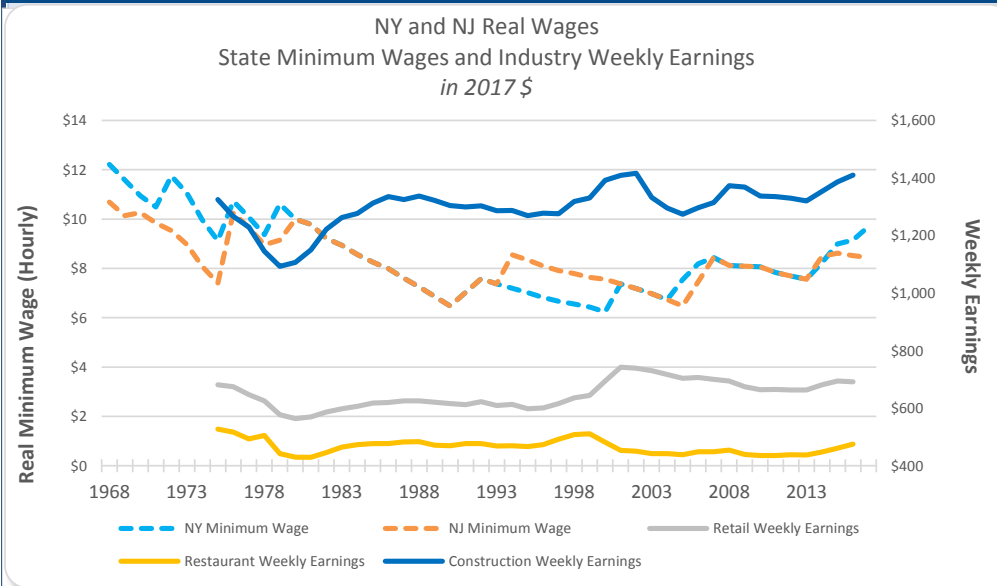
THE PORT AUTHORITY OF NY & NJ

Planning and Regional Development Department

February 2018

AVIATION	Dec '17	YTD	Dec '17/'16	YTD '17/'16	PORT COMMERCE	Dec '17	YTD	Dec '17/'16	YTD '17/'16
<b>Revenue Passengers (000's)</b>	<b>11,174.6</b>	<b>132,689.8</b>	<b>3.3%</b>	<b>2.2%</b>	<b>Port Trade</b>				
John F. Kennedy International Airport (JFK)	4,743.7	59,345.4	-1.8%	0.4%	Container Imports (TEUs)	274,366	3,396,469	3.6%	6.1%
LaGuardia Airport (LGA)	2,478.3	29,502.2	1.6%	-1.0%	Container Exports (TEUs)	121,093	1,415,322	8.5%	4.3%
Newark Liberty International Airport (EWR)	3,906.2	43,393.5	10.7%	7.0%	Containers lifted on/off Express Rail	48,690	567,649	15.6%	5.1%
Stewart International Airport (SWF)	46.5	448.7	96.2%	62.9%					
<b>Revenue Freight (Short Tons)</b>	<b>207,645</b>	<b>2,246,290</b>	<b>1.7%</b>	<b>7.5%</b>	<b>TUNNELS, BRIDGES &amp; TERMINALS</b>	<b>Dec '17</b>	<b>YTD</b>	<b>Dec '17/'16</b>	<b>YTD '17/'16</b>
Domestic	84,631	800,282	2.6%	6.2%	<b>Eastbound Vehicle Volumes (000's)</b>	<b>10,030</b>	<b>119,394</b>	<b>0.0%</b>	<b>0.5%</b>
International	123,014	1,446,008	1.1%	8.3%	George Washington Bridge	4,283	51,721	-0.7%	0.2%
<b>Flights</b>	<b>136,112</b>	<b>1,480,753</b>	<b>12.4%</b>	<b>0.7%</b>	Lincoln Tunnel	1,609	19,039	-1.2%	-0.9%
Domestic Air Carrier	92,089	933,686	19.4%	0.3%	Holland Tunnel	1,267	14,872	-3.0%	-3.2%
International Air Carrier	24,776	299,940	2.8%	1.3%	Bayonne Bridge	231	2,362	38.5%	40.5%
General Aviation (Inc Teterboro Flight Movements)	19,247	247,127	-3.0%	1.4%	Goethals Bridge	1,339	15,812	1.7%	1.0%
<b>Paid Parked Cars</b>	<b>565,258</b>	<b>7,095,316</b>	<b>-6.0%</b>	<b>-9.9%</b>	Outerbridge Crossing	1,301	15,588	0.5%	2.3%
<b>Revenue AirTrain Passengers</b>	<b>1,818,205</b>	<b>21,105,607</b>			<b>Eastbound Volumes by Vehicle Type (000's)</b>				
					Autos	9,194	109,109	0.2%	0.5%
					Trucks	595	7,319	-2.1%	0.5%
					Buses	241	2,962	-0.9%	-0.6%
<b>FERRY OPERATIONS</b>	<b>Dec '17</b>	<b>YTD</b>	<b>Dec '17/'16</b>	<b>YTD '17/'16</b>	<b>PORT AUTHORITY PULSE</b>	<b>Apr '17</b>	<b>Mar '17</b>	<b>Change</b>	
<b>Passengers (000's)</b>					<b>(Seasonally Adjusted, 2010=100)</b>				
New Jersey Ferries	655.7	8,950.7	-4.1%	2.9%	<b>PA Pulse (Transportation Activity Index)</b>	100.7	98.2	2.5%	
					<b>PA Freight Pulse</b>	97.1	95.3	1.9%	
					<b>PA Passenger Pulse</b>	104.2	101.1	3.1%	
<b>PATH</b>	<b>Dec '17</b>	<b>YTD</b>	<b>Dec '17/'16</b>	<b>YTD '17/'16</b>	<b>U.S. TRANSPORT. SERVICES INDEX</b>	<b>Dec '17</b>	<b>Nov '17</b>	<b>Change</b>	
<b>Passengers (000's)</b>	<b>6,405.0</b>	<b>82,817.0</b>	<b>0.8%</b>	<b>5.4%</b>	<b>(Prelim., Seasonally Adj., 2000=100)</b>				
Average Weekday	265.5	3,403.8	2.5%	5.5%	<b>TSI - Combined Index</b>	130.6	129.9	0.5%	
Average Saturday	114.9	1,393.1	13.2%	8.1%	<b>TSI - Freight</b>	132.0	131.1	0.7%	
Average Sunday	91.4	1,075.6	19.1%	9.2%	<b>TSI - Passenger</b>	127.0	127.2	-0.2%	

## TRANSPORTATION FOCUS



[from previous page]

Despite recent 80's nostalgia, the type of inflation seen in the early part of the 80's is gone. Rather, we may experience modest inflation with a further tightening in the labor market with heavy inflation only occurring if an external event such as an energy price shock occurs. Wages for some in the region have been stuck in a slow growth pattern for decades and will most likely remain there even with anticipated minimum wage increases. For those looking for major earnings boosts to ignite inflation, where's your beef?

<sup>1</sup> <http://www.epi.org/publication/state-minimum-wage-increases-helped-4-3-million-workers-but-federal-inaction-has-left-many-more-behind/>