



Epsilon Theory

# In the Flow – You Are Here, May 2019

May 6, 2019

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**The Secret of life is honesty and fair dealing. If you can fake that you've got it made.**

**These are my principles, and if you don't like them ... well, I've got others.**

**I'm not crazy about reality, but it's still the only place to get a decent meal.**

**A child of five could understand this. Send me someone to fetch a child of five.**

Last March, I wrote a long note on the cartoon that labor statistics present, called [The Icarus Moment](#).  
To set the scene:

**Once you start looking for these cartoons, you will see them EVERYWHERE.**

**It's not a Karl Marx world of alienation. It's a Groucho Marx world of alienation.**

The cartoon of our monthly theater regarding labor statistics, particularly wage growth, rests in the fact that they are reported as hourly wages. Even though the majority of wages in 2019 America are paid biweekly against an annual salary, the Bureau of Labor Statistics (BLS) reports ALL of our wages as if they were paid hourly. Why? Because in 1915 America, when the theater of labor statistics began, this *was* how most people got paid. Even today, the abstracted idea of hourly wages *connects* with people more

effectively than the abstracted idea of weekly wages. Put that together with bureaucratic inertia, and that's why this cartoon exists.

But here's the problem with the hourly wage abstraction. It requires introducing a new data estimation into the mix, one that has nothing (or at least very little) to do with the real-world concept we're trying to represent, which is whether you're taking home more money today than you did this time last year.

**That additional layer of abstraction is the average length of the work week.**

The root data collected by the BLS consists of the weekly wages paid by US businesses to their employees. That number is then divided by the total number of people being paid, and the result is the average weekly wage for Americans. Here is that abstracted data for the past 7+ years.

### Average Weekly Wages

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012	\$801.78	\$803.16	\$803.58	\$807.30	\$804.96	\$807.37	\$809.09	\$808.40	\$811.15	\$810.46	\$812.87	\$818.69
2013	\$817.34	\$820.41	\$821.45	\$821.47	\$824.55	\$826.97	\$825.26	\$829.04	\$827.66	\$828.70	\$833.52	\$831.45
2014	\$832.82	\$834.18	\$838.70	\$839.73	\$841.80	\$843.18	\$844.56	\$849.43	\$847.32	\$850.47	\$852.89	\$852.89
2015	\$853.53	\$857.73	\$857.33	\$858.71	\$861.47	\$862.16	\$862.85	\$868.11	\$866.64	\$871.92	\$871.13	\$871.47
2016	\$877.80	\$873.42	\$875.82	\$878.58	\$879.61	\$882.02	\$884.08	\$882.54	\$886.83	\$889.93	\$888.71	\$891.99
2017	\$893.71	\$894.54	\$895.57	\$900.25	\$901.97	\$904.03	\$906.78	\$907.82	\$909.29	\$910.57	\$915.98	\$919.08
2018	\$918.82	\$922.88	\$925.98	\$928.05	\$931.16	\$933.23	\$935.30	\$939.44	\$941.85	\$943.58	\$943.59	\$949.79
2019	\$950.82	\$951.50	\$956.00	\$955.29								

source: Bureau of Labor Statistics

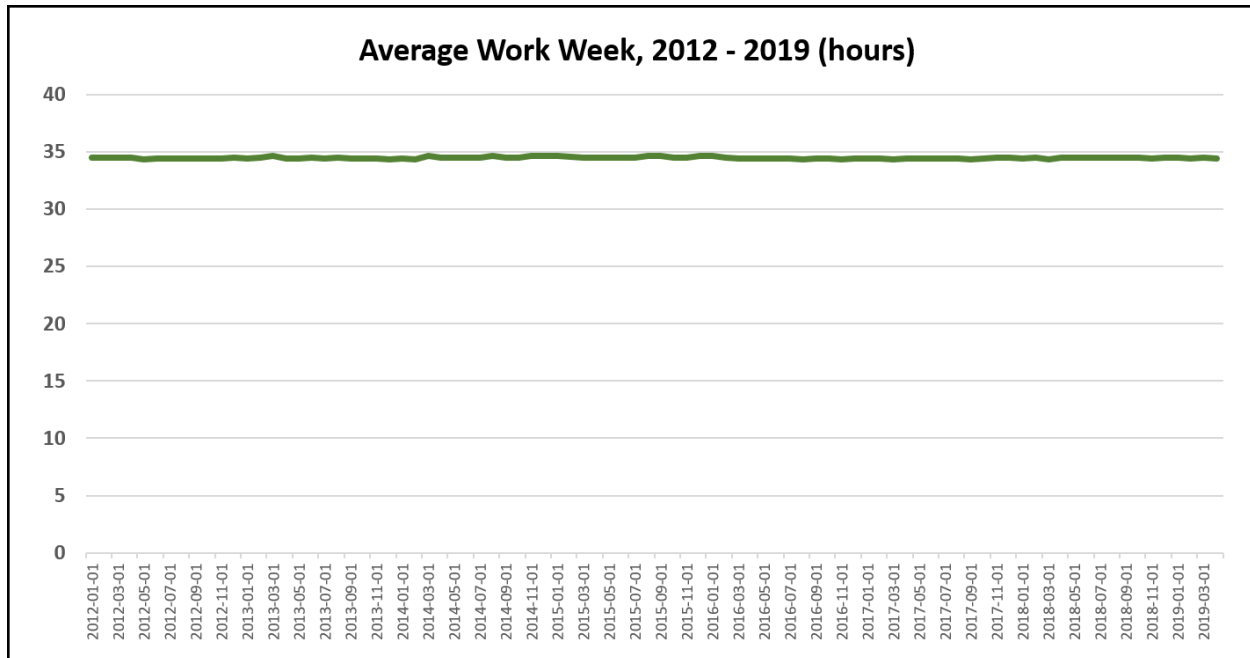
But instead of reporting the annual percentage change on a month-to-month basis, the BLS also calculates the "average work week" so that they can maintain the cartoon of hourly rather than weekly wage reporting. Here is that abstracted data.

### Average Work Week Hours

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012	34.5	34.5	34.5	34.5	34.3	34.4	34.4	34.4	34.4	34.4	34.4	34.5
2013	34.4	34.5	34.6	34.4	34.4	34.5	34.4	34.5	34.4	34.4	34.4	34.3
2014	34.4	34.3	34.6	34.5	34.5	34.5	34.5	34.6	34.5	34.5	34.6	34.6
2015	34.6	34.5	34.5	34.5	34.5	34.5	34.5	34.6	34.6	34.5	34.5	34.6
2016	34.6	34.5	34.4	34.4	34.4	34.4	34.4	34.3	34.4	34.4	34.3	34.4
2017	34.4	34.4	34.3	34.4	34.4	34.4	34.4	34.4	34.3	34.4	34.5	34.5
2018	34.4	34.5	34.3	34.5	34.5	34.5	34.5	34.5	34.5	34.5	34.4	34.5
2019	34.5	34.4	34.5	34.4								

source: Bureau of Labor Statistics

For the past 7+ years, the average work week has averaged 34.45 hours, with a range from 34.3 hours to 34.6 hours. That's 2,067 minutes, ranging from 2,058 minutes to 2,076 minutes. Here's a graph of that.



source: Bureau of Labor Statistics, Epsilon Theory

**This is not a variable. This is a constant.**

From a statistical perspective, given the inherent errors of measurement, any month-to-month difference of 6 minutes here or 6 minutes there is a totally random event.

*Measured changes in the average work week are not real.*

**And yet they have very real effects on the narrative.**

Here's the year-over-year wage growth data from the singly-abstracted measure of weekly wages:

### Annualized Wage Growth Measured Weekly

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012	2.60%	2.39%	2.40%	2.39%	2.08%	2.30%	1.77%	2.16%	2.03%	1.51%	1.90%	2.54%
2013	1.94%	2.15%	2.22%	1.76%	2.43%	2.43%	2.00%	2.55%	2.04%	2.25%	2.54%	1.56%
2014	1.89%	1.68%	2.10%	2.22%	2.09%	1.96%	2.34%	2.46%	2.38%	2.63%	2.32%	2.58%
2015	2.49%	2.82%	2.22%	2.26%	2.34%	2.25%	2.17%	2.20%	2.28%	2.52%	2.14%	2.18%
2016	2.84%	1.83%	2.16%	2.31%	2.11%	2.30%	2.46%	1.66%	2.33%	2.07%	2.02%	2.35%
2017	1.81%	2.42%	2.26%	2.47%	2.54%	2.50%	2.57%	2.86%	2.53%	2.32%	3.07%	3.04%
2018	2.81%	3.17%	3.40%	3.09%	3.24%	3.23%	3.15%	3.48%	3.58%	3.63%	3.01%	3.34%
2019	3.48%	3.10%	3.24%	2.94%								

source: Bureau of Labor Statistics

These are the “true” results, or at least the most basic abstraction of what we're after.

And now here's the year-over-year wage growth data from the doubly-abstracted measure of hourly wages:

### Annualized Wage Growth Measured Hourly

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012	1.71%	1.79%	2.10%	2.09%	1.78%	2.00%	1.77%	1.86%	2.03%	1.51%	1.90%	2.24%
2013	2.24%	2.15%	1.93%	2.05%	2.14%	2.13%	2.00%	2.26%	2.04%	2.25%	2.24%	1.85%
2014	1.89%	2.27%	2.10%	1.93%	2.09%	1.96%	2.04%	2.16%	2.08%	2.03%	2.03%	1.99%
2015	2.19%	1.93%	2.22%	2.26%	2.34%	2.25%	2.17%	2.20%	2.28%	2.52%	2.43%	2.47%
2016	2.55%	2.42%	2.45%	2.61%	2.40%	2.60%	2.76%	2.55%	2.63%	2.66%	2.61%	2.65%
2017	2.40%	2.72%	2.55%	2.47%	2.54%	2.50%	2.57%	2.57%	2.83%	2.32%	2.47%	2.74%
2018	2.81%	2.57%	2.80%	2.79%	2.94%	2.93%	2.85%	3.18%	2.98%	3.32%	3.31%	3.34%
2019	3.18%	3.40%	3.24%	3.23%								

source: Bureau of Labor Statistics

These are the results that are reported to us and create the political and investment narrative.

And now here's the difference in the two data series, with weekly wage increases subtracted from hourly wage increases. The numbers here are how much the *reported* wage growth result overstates or understates the *actual* wage growth result.

## Over/Understatement of Average Wage Growth

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012	-0.89%	-0.59%	-0.30%	-0.30%	-0.30%	-0.30%	0.00%	-0.30%	0.00%	0.00%	0.00%	-0.30%
2013	0.30%	0.00%	-0.30%	0.30%	-0.30%	-0.30%	0.00%	-0.30%	0.00%	0.00%	-0.30%	0.30%
2014	0.00%	0.59%	0.00%	-0.30%	0.00%	0.00%	-0.30%	-0.30%	-0.30%	-0.59%	-0.30%	-0.59%
2015	-0.30%	-0.89%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.30%	0.30%
2016	-0.30%	0.59%	0.30%	0.30%	0.30%	0.30%	0.30%	0.89%	0.30%	0.59%	0.60%	0.30%
2017	0.59%	0.30%	0.30%	0.00%	0.00%	0.00%	0.00%	-0.30%	0.30%	0.00%	-0.60%	-0.30%
2018	0.00%	-0.60%	-0.60%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.60%	-0.30%	0.30%	0.00%
2019	-0.30%	0.30%	0.00%	0.30%								

source: Bureau of Labor Statistics, Epsilon Theory

**In 2016, reported wage growth massively overstated actual wage growth.** Wage stagnation going into the 2016 election was actually much worse than you were told. Did this make a difference in the Midwestern states that swung the election, in that actual labor conditions were worse than everyone thought they were? I think yes.

**In 2018, reported wage growth massively understated actual wage growth.** Wage growth all last year was actually much better than you were told. Did this make a difference in the current Fed/Wall Street/White House narrative that inflation is dead and the easy money punchbowl can be maintained without consequence? I think yes.

What does all this mean for our investments? Here's the money quote from [The Icarus Moment](#):

**It's the Triumph of the Cartoon, and as an investor it puts me at war with myself.**

Do I invest on the basis of reality, meaning the fact that wage inflation is, in fact, picking up in a remarkably steady fashion in the real economy?

Or do I invest on the basis of Narrative abstractions that I can anticipate being presented and represented to markets at regularly scheduled moments of theater?

*Because the investment strategy for the one is almost diametrically opposed to the investment strategy for the other.*

Honestly, I still don't have a good answer to this question.

Do I invest on the basis of what I can see happening in real-world or do I invest on the basis of what I can see happening in narrative-world?

**Ultimately, I STILL think that real-world ultimately wins out.**

But the path for that ... the timing of that ... it's utterly narrative dependent.

Groucho would understand.



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