

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

Date: October 16, 2015
To: Federal Open Market Committee
From: William Wascher
Subject: Compensation and Labor Market Slack

The attached memo, prepared by Deborah Lindner, John Roberts, and me, “Compensation and Labor Market Slack,” provides an assessment of the recent behavior of compensation growth and its implications for the staff’s estimate of labor market slack. In particular, the memo sketches the conceptual framework that the staff employs in putting together the wage forecast and assesses the extent to which the absence of a pickup in compensation growth should be taken as evidence that more slack remains in the labor market than is assumed in the staff’s Tealbook forecast. We also discuss several alternative models of wage dynamics and show how they can lead to different interpretations about the recent behavior of compensation as a way to illustrate the difficulties in using wage data to measure labor market slack.