

Disappointing wage data won't help the Fed's case for higher rates

Expect markets to remain sceptical about the Fed's hiking plans as Friday's all-important wage growth figure looks set to come in below consensus



Source: Federal Reserve

Wage growth to disappoint - but only because of a statistical quirk...

A surge in wage growth during July was a welcome development after a particularly lacklustre start to the year. But this time, markets could be left disappointed. There were two additional workdays in August relative to July, and this typically means that average hourly earnings growth is noticeably lower. Of course, this is a statistical quirk that tells us nothing about the fundamental backdrop, which given high job-to-job flows and a jobs market near full employment, looks very strong. We still expect wage growth to gradually pick-up, but it's a slow-moving ship and we may struggle to see a figure above 3% this year.

2.5 Average Hourly Earnings (YoY%)
(Consensus 2.6%)

Jobs growth would have to be horrendous to worry the Fed

Recent strength in jobs growth is a double-edged sword for the Fed. Whilst consistently large employment gains are no bad thing, it raises the possibility that the economy has more slack than previously thought. As the US nears full employment, logic says that job gains should slow. The Fed is well aware of this argument so even if payrolls corrects lower this month, policymakers are unlikely to bat an eyelid. It's also worth noting that this month's data will have been collected before Hurricane Harvey.

160k Change in non-farm payrolls
(Consensus 180k)

Unemployment rate to stay at post-crisis low

Another fall in July extended what has been a fairly remarkable decline in the unemployment rate so far this year. 350,000 people entered the labour force in July, with only 4k being left without a job. A fresh wave of individuals seeking work in August should keep the unemployment rate steady - although as always, it's worth saying that the household survey can be extremely choppy.

4.3% Unemployment rate
(Consensus 4.3%)

Hurricane won't blow the Fed off course - but inflation and wage growth might

Hurricane Harvey is set to be one of the costliest storms to hit the US since Katrina back in 2005, and along with the devastating human impact, early indications suggest the financial costs are likely to extend into the tens of billions. But at an aggregate, economic growth level, the effect could be more muted and most of the impact is likely to be felt through [oil disruption](#). More broadly, third quarter growth looks set to be relatively strong, partly as firms increase inventories.

So with the growth backdrop looking fairly solid, the outlook for Fed hikes hinges on inflation. Whilst this week's wage data could disappoint and core PCE, the Fed's favoured measure of inflation, could hit a one-and-a-half year low, we're still optimistic on the outlook. That should ultimately see the Fed hike rates again in December. But with the

turnaround in both core inflation and wage growth set to be gradual, markets are likely to remain wary of the Fed's rate hike plans.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.