

## Hot US jobs market backs the Fed's call for higher rates

Strong job creation and a big increase in wages underscore the Federal Reserve's argument that a lot more work needs to be done to get inflation under control. It has certainly jolted the market. But with recessionary fears lingering, market participants will remain sceptical over how long the strong performance can last



US job growth was strong and wages rose in November

# 263,000

Number of US jobs added in November

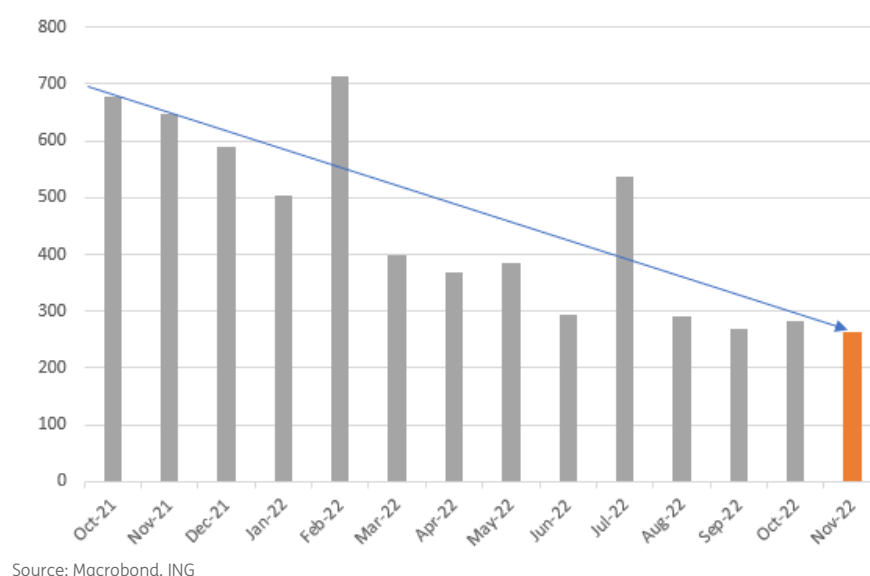
## Surging employment and wages show the economy remains strong

The US economy added 263,000 jobs in November, well ahead of the 200,000 consensus estimate, even when accounting for a 23,000 downward revision to the past couple of months of data. Private payrolls rose 221,000, led by 88,000 jobs in leisure and hospitality and 82,000 in education and health. Construction was up 20,000 and manufacturing gained 14,000. However, there was weakness in trade & transport (-49,000) and retail trade (-30,000).

There was more positive news for workers in the form of big wage gains of 0.6% month-on-month, double what was expected, which leaves the annual rate of wage growth at 5.1%. The unemployment rate remained at 3.7% despite the household survey showing an apparent drop of 138,000 people saying they were in work – the second consecutive decline. The unemployment rate held steady because the participation rate fell yet again as workers remain reluctant to return to the workforce.

Given the Fed's repeated warnings that rates are likely to stay higher for longer to ensure inflation is defeated, officials will be hoping that today's numbers will be the jolt needed to get market participants to finally believe the Fed's intent.

## Payrolls growth is slowing, but not fast enough for the Fed (Jobs added per month '000s)



## Jobs market remains far too hot for the Fed

In his speech earlier this week, Fed Chair Jerome Powell discussed the prospect of declines in inflation relating to core goods and housing. His focus though was on another area, core services other than housing, where the situation is more troubling. This grouping accounts for more than half of the core PCE index, the Fed's favoured measure of inflation. The tightness of the jobs market and the implication for wage pressures, which make up the largest cost in delivering these services, is therefore key to the outlook for interest rates.

In the speech, he argued that “job growth remains far in excess of the pace needed to accommodate population growth over time—about 100,000 per month by many estimates.” Consequently, wage growth “shows only tentative signs of returning to balance”. Today’s 263,000 jobs number confirms we remain a long way off from demand balancing with supply, which would ease those labour market related inflation pressures.

Adding to the Fed’s problems, monetary conditions have loosened in recent weeks as the dollar and longer-dated Treasury yields have fallen and credit spreads have narrowed. This is undoing the tightening effects of the Fed’s recent rate rises. Furthermore, the latest consumer spending numbers together with the anecdotal evidence of the Black Friday weekend sales show that the economy has not yet met the Fed’s requirements of slowing to a rate “well below its longer-run trend”.

As such, the Fed has more work to do and we look for further 50bp rate hikes in December and in February, with the potential for tightening needing to go on for longer.

## Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@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](http://www.ing.com).