

## US jobs growth boost case for Fed action

The US labour market continues to tighten with unemployment now firmly below 4%. Given strong hiring intentions, this will keep upward pressure on pay with the Federal Reserve set to respond with higher interest rates despite uncertainty created by Russia's assault on Ukraine



Source: iStockphoto

### Yet another upside surprise on jobs

The February jobs report includes another set of very good numbers with non-farm payrolls rising 678,000 versus 423,000 expectations. There were a further net 92,000 upward revisions to December and January, which means employment is now only down 2.105m on the February 2020 peak.

We are pleasantly surprised given the weakness in the ISM employment surveys – the services index actually showed a contraction, while the National Federation of Independent Business (NFIB) had reported slower hiring last month. The Federal Reserve Beige Book had suggested that while there was widespread demand for staff, hiring was “hampered by equally widespread reports of worker scarcity” while “many firms had difficulty maintaining their staffing levels due to high turnover”. Today’s report therefore contradicts much of the other labour data we have seen this week.

## US non-farm payrolls level (m)



Source: Macrobond, ING

## Don't worry about average hourly earnings, pay is going up

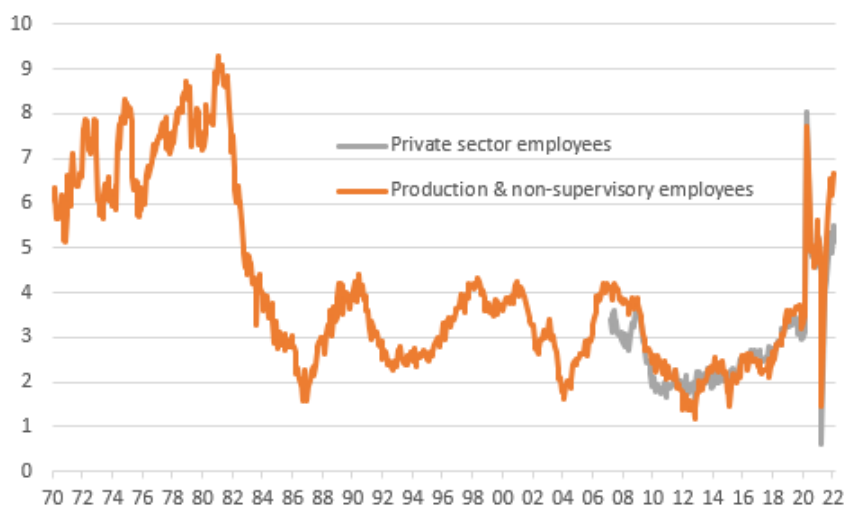
Markets may be a little surprised by the weakness in the wage growth number, coming in flat on the month (consensus 0.5% month-on-month) with the year-on-year rate slowing to 5.1% from 5.5%. After all, the NFIB survey shows considerable pay pressure while the Beige Book stated “firms continued to increase compensation and introduce workplace flexibility to attract workers... with mixed success”.

We suspect the reason for the softness in average hourly earnings is due to how it is measured. They simply divide the total wage bill per hour by the number of employees to get "average" hourly earnings. The jobs gains were led by 179k for leisure & hospitality, 112k in education & health, 48k in transportation & warehousing and 60k in construction, so if you hire hundreds of thousands of people on the lower end of the income distribution this automatically drags down the "average" wage.

Consequently there are times when average hourly earnings can actually fall despite wages going higher for every individual. Essentially it isn't "mix adjusted", hence why the employment cost index is the gold standard to measure labour costs.

The chart below shows average hourly earnings growth and the spike above 8% YoY in early 2020 is attributed to this factor – lower earning workers were the ones who lost their job and with their income no longer included, the “average” automatically jumped higher.

## Average hourly earnings are distorted by employment mix

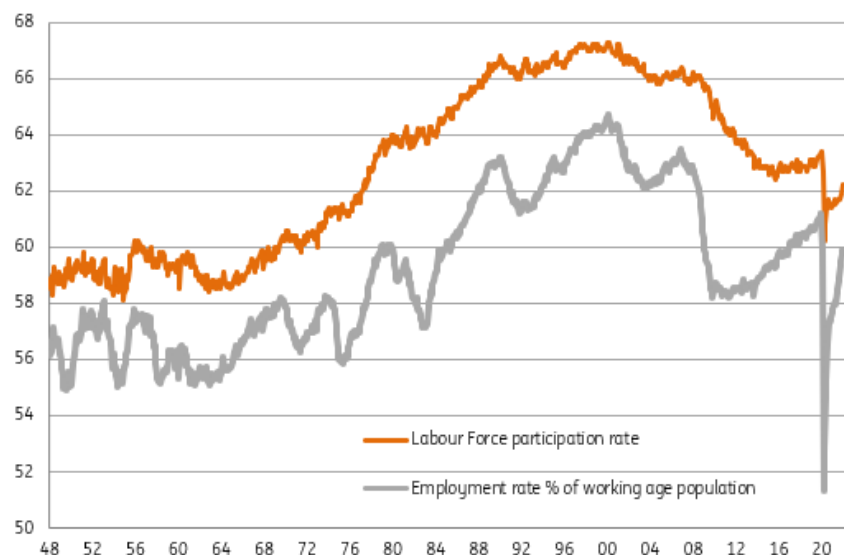


Source: Macrobond, ING

## Employment ratio is grinding higher, but still some way to go

Looking at the household survey (used to calculate the unemployment rate), it showed employment rising 548k with the participation rate rising to 62.3% and the proportion of people of working age in employment rising to 59.9%. To put this in context the employment ratio was 61.2% in February 2020 and peaked at 64.3% in December 1999. While there are half a million more men now in the civilian labour force than in February 2020, there are 1.2m fewer women.

## Employment ratio and labour participation rates



Source: Macrobond, ING

## More ammunition for the Fed hawks

Overall, the report underscores the strength of the domestic economy with employment rising and

overall household income rising even more quickly due to increasing pay rates. It will reinforce the view that the Fed can hike 25bp in March despite the concerns caused by Russia's assault on Ukraine. With next week's CPI report set to show CPI running at or very close to 8% – the fastest rate since January 1981 – we would expect the March updated Fed dot plot of individual forecasts to move much closer to the market assessment that the Fed funds rate will be raised six times this year.

## Author

**James Knightley**

Chief International Economist

[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 <http://www.ing.com>.