US jobs: It's a red hot market

The US jobs market is red hot, notwithstanding Hurricane Florence effects. Strong growth, record low unemployment and rising wage pressures mean we look for four more Federal Reserve rate hikes over the next twelve months

134K

Non farm payrolls

Lowest unemployment rate in nearly 50 years

Good news on many fronts

The September jobs report shows payrolls rising 134,000 in September, worse than the 185,000 consensus (ING was 160,000), but this doesn't tell the true story. Hurricane Florence has clearly had an impact on the data (the BLS says 299,000 people weren't at work because of bad weather and 1.5 million could only work part-time)) given it made landfall in the Carolinas and Virginia in the week of data collection. However, the impact is certainly far less than what we saw with hurricanes Harvey and Irma last year and the underlying story is one of real strength.

After all, there were significant upward revisions to the history of 87,000 for the past two months so even after today's figure, payrolls growth is averaging 206,000 per month this year versus the 182,000 monthly average in 2017. Like the rest of the economy, the jobs market has gained momentum thanks to the massive fiscal stimulus.

We should also be expecting strong payrolls growth in October and November. Last year we saw September payrolls growth of just 18,000 because of Harvey and Irma disruption, before rebounding 244,000 and 252,000 in the following two months (the two strongest readings in 2017). The region affected by Florence this year has a smaller population so the corresponding rebound in October and November this year from the rebuild/clean-up operation (and the fact that people can get to their workplaces) is likely to be a fair bit smaller too, but it will be supportive for jobs growth.

Wages are rising too

Wages remain on an upward trend. They were in line with market expectations, rising 0.3%MoM/2.8%YoY, but we look set to see them break above the 3%YoY rate next month, which would mark the fastest pace of wage growth since April 2009.

There was also good news on the unemployment rate, which dropped to 3.7% - the lowest reading since 1969. However, the underemployment rate (which includes people who are working part-time, but want full-time work and people of short-term contract who want a permanent position) ticked up to 7.5%. This is likely to be only temporary given the strength in demand for workers in the US economy and again, Hurricane Florence probably played its part.

What next for the Fed?

Taking it all together, the economy is on course for 3% growth, the jobs market is red hot and inflation pressures are on the rise. So while the Federal Reserve no longer describes monetary policy as being "accommodative", it is certainly some way off from being "restrictive". As such, we look for a December 25bp interest rate rise with three more hikes likely next year.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com