

## US jobs report: Mixed messages but rate hikes remain on track

The new low in unemployment will attract the headlines, but wage growth disappoints. Nonetheless, the fundamentals look sound and will keep the Fed hiking rates consistently each quarter



Source: Shutterstock

**3.9%** Lowest US unemployment reading since December 2000

The April US jobs report is a bit mixed. Employment rose 164,000, but when you add in 30,000 upward revisions to the past two months then it is pretty much in line with the market expectation for a 193,000 rise. Unemployment fell to 3.9%, the lowest level since December 2000, but the fall from 4.1% was amplified by a sizeable chunk of unemployed people leaving the labour force – note the participation rate fell from 62.9% to 62.8%. Rounding out the report was a softer wage number. There were some downward revisions and a weaker month-on-month reading for April of 0.1%, which mean the annual wage growth rate remained at 2.6%, rather than coming in at 2.7%

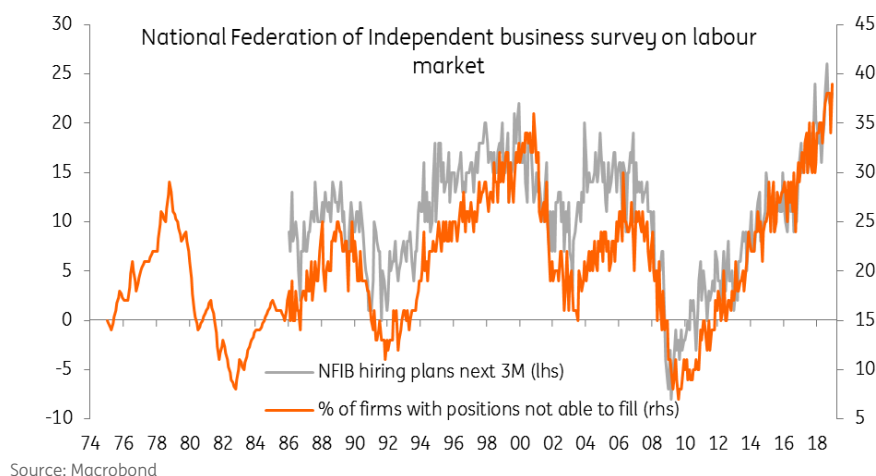
as predicted.

It isn't a particularly exciting report and certainly shouldn't alter market expectations for monetary policy in any meaningful way, but it just feels a bit soft given the state of the economy. Other surveys paint a stronger picture and we still believe that the wage story will turn higher and be the catalyst for the Fed to take a more aggressive stance on the inflation threat.

For example, the National Federation of Independent Businesses reported yesterday that 57% of surveyed businesses were hiring in April, up four points on March while a net 33% of small businesses are raising worker compensation – this survey has only been higher once (May 2000) in its 34-year history. We think it is possible we will see annual pay growth hit 3.5% YoY in the latter part of this year.

Given the \$1.5 trillion of tax cuts coming through, this will also mean consumers have plenty of cash in their pockets to spend and that GDP growth in the US economy overall will come in close to 3% this year. Meanwhile, next week's CPI report will likely show headline and core CPI ticking up to 2.5% and 2.2% YoY respectively. As such, a strong growth and firm inflation environment will keep the Fed in tightening mode and we continue to look for three further interest rates rises this year, starting with 13 June.

## Wages disappoint, but the NFIB survey suggests companies are paying up...



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