

US jobs report signals more interest rate hikes ahead

The US jobs market remains incredibly strong and with wages starting to accelerate, domestic price pressures will increase. This will keep the Federal Reserve on its path of “gradual” interest rate hikes with next week’s FOMC meeting set to signal a December move



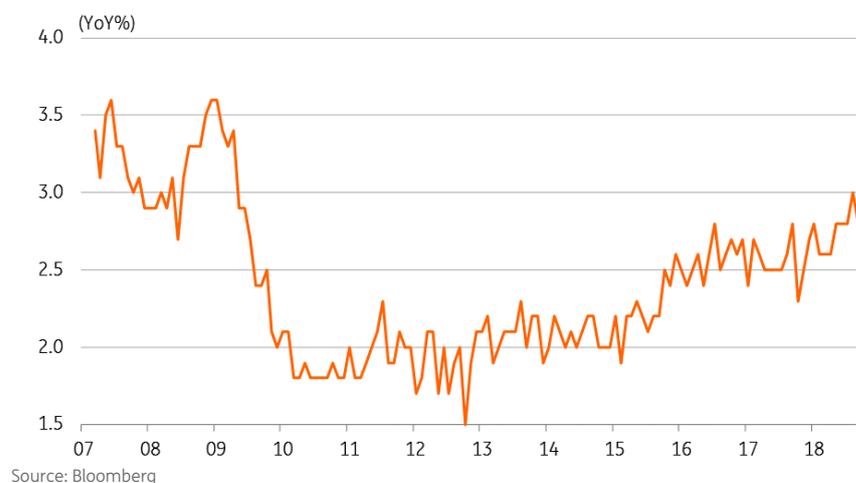
The October US jobs report has rebounded sharply (250,000) from the "soft" September figure of 118,000 while the market was expecting something around the 200,000 mark. Ahead of the report, the expectation was that there would be a strong rebound in Virginia and the Carolinas as workers returned to work following Hurricane Florence, with additional jobs created thanks to the rebuild/clean-up operations put in place. However, Hurricane Michael, which hit Florida and Georgia last month, will have had a detrimental impact on payrolls in that region through worker absence.

Given these weather-related distortions, this month’s figure alone doesn’t tell us much. What we can say when looking on a longer-run basis is that payrolls growth has accelerated from an average of 182,000 per month in 2017 to 213,000 per month in 2018. The economy is booming and the bigger struggle for companies is actually finding labour to fill their vacancies. Meanwhile, the unemployment rate remained at 3.7% - it was last lower in December 1969!

This incredibly tight labour market story is increasingly evident in the wage data with average hourly earnings jumping to 3.1% year-on-year from 2.8% in September. This is the fastest rate of wage growth since April 2009 and further increases are likely in the months ahead.

In this regard, it is important to point out that the National Federation of Independent Businesses reports that the proportion of small firms that are unable to fill their current vacancies is the highest it has been in the survey's 40+ year history. The NFIB survey also shows that the proportion of small businesses looking to raise pay is at the highest in the survey's long history. This suggests pay rates will continue moving higher, which will add to domestic price pressures and keep the pressure on the Federal Reserve to continue raising interest rates. As such, the Fed looks set to remain in tightening mode with a December rate hike looking highly likely followed by three more 25 basis point interest rate rises next year.

Wages rising at their fastest rate since 2009



Author

James Knightley

Chief International Economist

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>.