Article | 2 November 2018

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

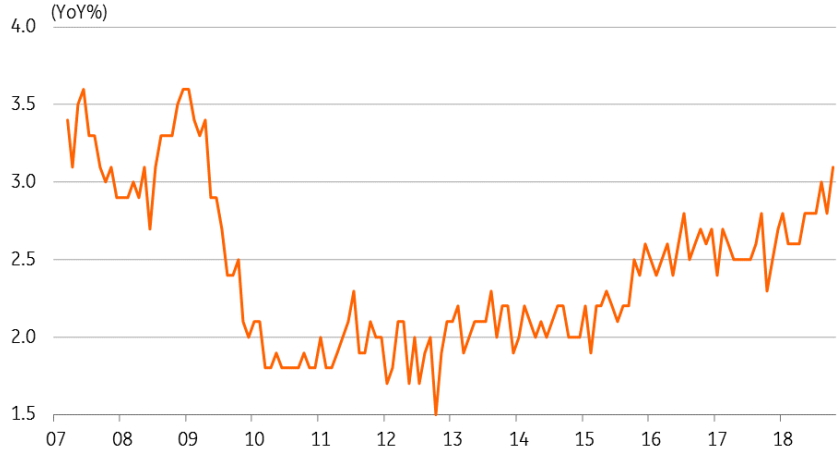
The October US jobs report has rebounded sharply (250,000) from the "soft" September figure of 118,000 while the market was expecting something around the 200,000 mark. Ahead of the report, the expectation was that there would be a strong rebound in Virginia and the Carolinas as workers returned to work 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



Source: Bloomberg

Author

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