

## US jobs report: Stronger than ever

The main message is that strong employment growth is resulting in higher pay and this is attracting more people back to the labour market. The Fed is on pause, but the case for rate hikes will persist

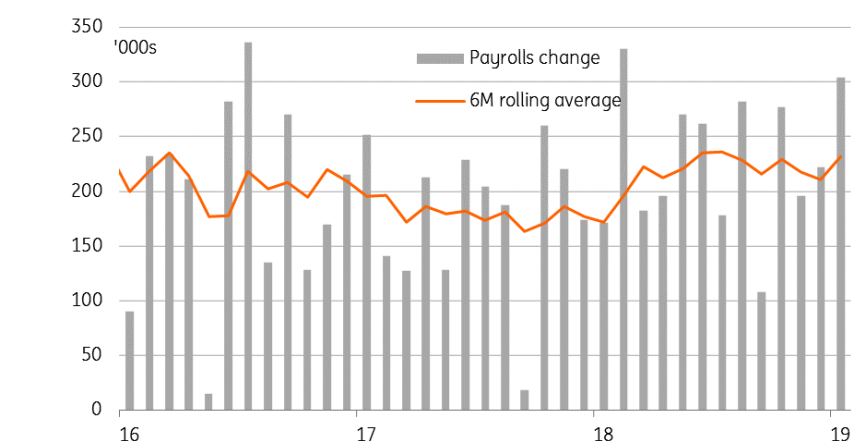


Source: iStock

### Firms still hiring

This is another really strong jobs report with non-farm payrolls rising 304,000 in January. This was above even the most optimistic forecast in the Bloomberg survey and suggests that the US economy is in great shape with businesses desperate for workers. Admittedly some of this strength stems from a 90,000 downward revision to December 2018's initially reported payrolls figure, but it suggests that the US economy hasn't been adversely impacted by the government shutdown in any meaningful way.

## US employment growth remains robust



Source: Bloomberg, ING

## Competition for labour is pushing up pay

Pay was a little disappointing, rising just 0.1% month-on-month – the weakest growth rate since February last year and below the 0.3% consensus – which seems odd given the fact other surveys suggest businesses are struggling to hire workers and pay is going up. Indeed the National Federation of Independent Businesses earlier reported that over a third of small businesses have vacancies that they cannot fill, with plans to raise worker compensation at all-time highs. Furthermore, the January Beige Book published by the Federal Reserve reported that “wages grew throughout the country... across skill levels, and numerous Districts highlighted rising entry-level wages as firms sought to attract and retain workers and as new minimum wage laws came into effect”. The annual rate of wage growth is still 3.2% year-on-year, in line with expectations, and if we get a 0.3% MoM reading next month, annual wage growth could hit 3.5%. Wage growth for production and non-supervisory workers is already there.

## People coming back to the jobs market...

This acceleration in wages is apparently attracting workers who had left the labour force back into the market. The worker participation rate rose to 63.2%, which is the highest reading since August 2013. As such, the fact that the unemployment rate rose to 4% shouldn't be too much of a concern. Firms clearly need workers and this increase in labour supply will be absorbed as long as they have the right skills.

## The case for Fed rate hikes persists

Job creation will likely slow in 2019, but this is as much due to a lack of suitable workers and firms not able to fill vacancies (despite rising labour supply) as it is to economic headwinds for the US. With worker pay on the rise and employees feeling secure in their jobs, consumer spending will likely remain firm while adding to inflation pressures in the economy. Fed Chair Jerome Powell talked of economic and market crosscurrents, justifying a pause from the Federal Reserve, but if we can get better news on US-China trade relations, that will lift some of the global gloom. We continue to believe that strong fundamentals should be enough to convince the Federal Reserve to raise interest rates once more in the summer.

## 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 [www.ing.com](http://www.ing.com).