US jobs: what happened and what it means

US employment rebounded back in October from hurricane-related weakness, but wage growth is benign meaning the Fed's "gradual" trajectory on rate hikes remains on track

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261,000 Jobs created in october

The US labour report for October has reversed the hurricane-related distortions of the September release. Payrolls rose 261,000 versus the 313,000 market expectation, but there were a net 90,000 upward revisions so on balance it is a strong report and backs the case for a December rate hike.

If you remember, September's payrolls fell 33,000 (now reported as an 18,000 rise) largely because a significant number of people in affected areas couldn't get into work and therefore were not logged as being on the company payroll that day. This, of course, has unwound and on top of that, we are seeing strong growth in the economy, which is creating jobs while post-hurricane rebuilding and recovery work is likely to have added even more.

The unemployment rate has surprisingly dropped a tenth of a percentage point and is now 4.1% - the lowest rate since December 2000. Average earnings growth has softened though, coming in flat on the month after a 0.5%MoM gain last month. This leaves pay at 2.4% YoY, which is a little disappointing. However, the fact that underemployment is now just 7.9% (down from 8.3% last month) really underlines how strong the jobs market is, meaning that the balance of risks must lie to the upside on wage growth from here.

With the economy growing strongly and tax reform likely to add further fuel to the fire, the case for higher US interest rates continues to build. Barring an economically damaging government shutdown in early December, we expect the Fed to hike rates on Dec 13 with at least two further rate rises probably under new Fed Chair Jerome Powell next year.

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