

US: More evidence of pricing power

We think data is increasingly pointing to the likelihood of a more aggressive Fed route

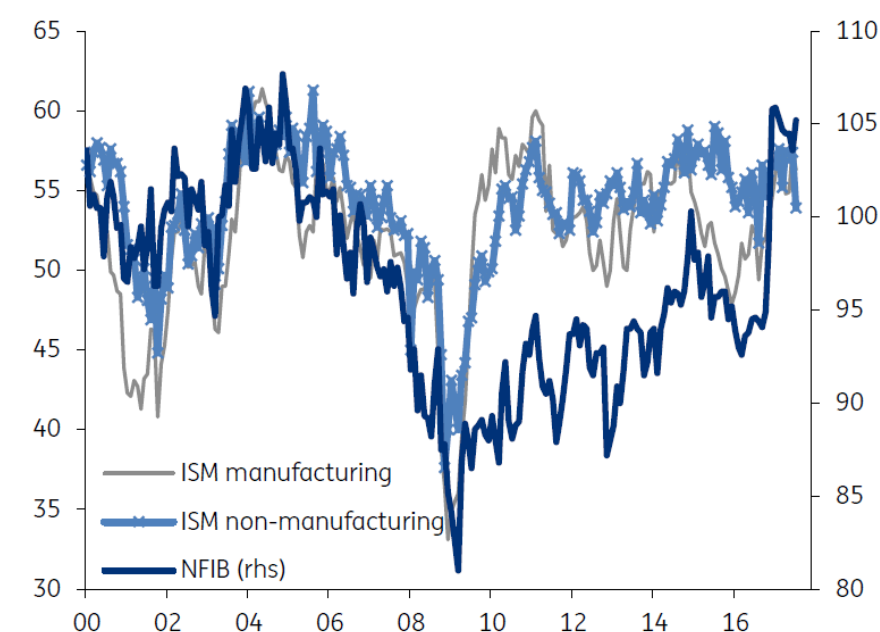


Source: iStockphoto

Markets v data

The market continues to doubt the Fed will hike rates meaningfully over the next couple of years, but we think the data is increasingly pointing to the likelihood of the Fed taking a more aggressive route. The Federal Reserve has been suggesting that recent weakness in growth and inflation was likely to be transitory, but the market remains sceptical. This hasn't been helped by the fact inflation and wage pressures have softened and there has been no real progress on President Trump's tax reforms, which would likely have provided a significant boost to growth. However, there is growing evidence to suggest that inflation is likely soon to return to target while the underlying health of the US economy seems to be improving, supporting the "transitory" assessment of the Fed. Last Friday's labour report showed job creation remains strong while wage growth picked-up with a 0.3% MoM increase.

Business surveys - small firms have caught up



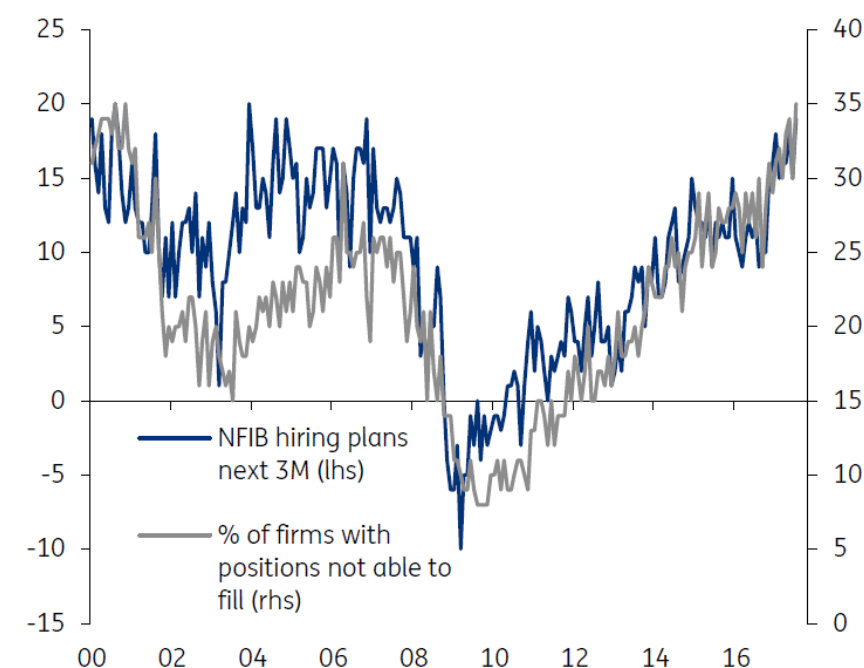
Source: Bloomberg

Business surveys - small firms have caught up

Labour market strength

There was more evidence of labour market strength this week with the National Federation of Independent Businesses reporting a rise in its headline sentiment index on small business optimism. Meanwhile, the hiring plans of small businesses and the proportion of small businesses reporting hiring difficulties hit new cycle highs (the former is the strongest the index has been since December 2003). This strong labour demand/weak labour supply story points to more wage pressures in the future while strong demand for workers was also reported in Monday's JOLTs report.

The labour market is getting tighter



Source: Macrobond

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