

US payrolls: Firms feeling the pinch

November payrolls were soft, but this was partly driven by the lack of available workers to hire. Wage pressures are building and will keep core inflation moving higher and the Federal Reserve hiking rates



Source: iStockphoto

US non-farm payrolls rose 155,000 in November versus the 198,000 consensus forecast, and there were a net 12,000 downward revisions to the past two months' data. Manufacturing employment was good, rising 27,000, but services saw slower gains than hoped.

However, markets shouldn't be too disappointed as the fact that there aren't enough workers was almost certainly a major factor. Indeed, the National Federation of Independent Businesses continues to report that the proportion of firms that can't fill the vacancies remains at an all-time high. The rate of jobs growth has accelerated in 2018 to average 206,000 per month versus 182,000 in 2017, but it will slow next year, partly for this very reason.

Decent economic momentum means there is little reason to expect a significant drop-off in demand for workers anytime soon but the key question is whether companies can actually find

workers. Given the scarcity of available labour, this suggests further upside for wages

Conversely, wage pressure will continue to build because of worker shortages. Wage growth rose 0.2% month on month leaving the annual rate of wage growth at 3.1%. Firms are also increasingly having to compete on non-wage benefits with this week's Fed's Beige Book stating that "most Districts noted examples of firms enhancing non-wage benefits, including health benefits, profit-sharing, bonuses, and paid vacation days".

If we round out the numbers, the unemployment rate remains at a 49-year low of 3.7% with underemployment at 7.6%.

In terms of the outlook, decent economic momentum means there is little reason to expect a significant drop-off in demand for workers anytime soon. The key question is whether companies can actually find workers. Given the scarcity of available labour, this suggests further upside for wages.

This will add to inflationary pressures in the US economy and ensure a December interest rate hike from the Fed. There will be more headwinds for growth in 2019, such as the fading fiscal support, strong dollar and protectionism fears, but for now, we continue to predict three further 25bp interest rate increases next year.

Author

James Knightley

Chief International Economist, US

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>.