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.

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