What to expect from January's US jobs report

Don't be alarmed if Friday's wage growth figure is disappointing. Inflationary pressures are building and that should see the Fed hike three times this year

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Jobs growth

After a bumpy few months, we expect jobs growth to return to the underlying trend this time around - roughly 170,000 - although this could get buffeted around by the weather. 2018 began on a particularly cold note, with many areas on the East Coast experiencing temperatures more than 10°C below average. Admittedly, it did warm up quite significantly through the reference week (when the jobs data is actually collected). And it's worth saying too that January's jobs numbers are often less affected by temperature swings than say December or March, as most weather-dependent activities would typically have wound up for winter by this point.

Whatever happens, one thing that shouldn't blow January's payrolls off course is the latest government shutdown. The reference period fell the week before workers were furloughed - and the shutdown was so brief, it probably wouldn't have made a massive difference anyway.

Temporary blips aside, we expect the jobs market to continue to go from strength to strength through 2018 as the economy powers on - although a very gradual slowdown in the rate of jobs growth is to be expected as the US converges on full employment.

170k Change in non-farm payrolls ('000s)

(ING Forecast)

Wage growth

On the face of it, January's wage growth data could come as a bit of a letdown for markets. But once again, the data will fall foul of a quirk relating to the number of workdays in the month. There were two extra workdays in January vs December, and given that wage growth is given as an hourly average, this tends to result in an artificially lower growth number. Of course, this is nothing more than statistical noise, and the effect will be completely offset in February.

With job-to-job flows on the rise, there are growing signs that firms are having to offer more generous pay packets to attract (and retain) talent. That should see wage growth gradually grind higher through 2018, although this could potentially take a little while to play out in the average hourly earnings figures.

2.4% Average hourly earnings (YoY%)

(ING Forecast)

Unemployment rate

For what is typically a very choppy set of data, the household survey has shown virtually no change in employment or unemployment since October. Some correction is due, and a sharp increase in total employment would tally with what we've been seeing in the payrolls-based measure of jobs. A significant resurgence could see the unemployment rate tick down to another multi-year low, although we suspect it's more likely to hover at 4.1% again this month.

4.1% Unemployment rate (%)

(ING Forecast)

What it means for interest rates

We could see the Fed take a brief pause in its rate hike cycle this quarter as new chairman Jay Powell takes hold of the reins, particularly if the latest cold snap does put a temporary brake on growth. But assuming the economy recovers quickly and continues to grow at a roughly 3% rate, and inflation returns to target over the next few months, we would expect the Fed to follow through with its signal to hike three times in 2018 - and if anything, the risks are biased to the upside.

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