Better US wage growth bolsters Fed hike case

A rebound in wage growth will outweigh any concerns over lower payrolls for the Fed, as policymakers gear up for three more hikes this year

Source: iStock

After two months of bumper payrolls figures, it was back to reality in March as the rate of jobs growth slowed to 103k. On the face of it, this may sound a little disappointing. However, we are slightly less convinced.

Firstly, payrolls have a bit of a track record of under-performing in March. But we also think that the pattern we've seen over the past couple of reports - soaring employment and a rapid influx of workers into the labour force – sounded a little too good to be true.

Other surveys have pointed to the fact that it is becoming harder and harder for firms to find staff. A measure of vacancy length shows that it's taking firms almost twice as long to fill posts as it did during the depths of the crisis. And according to the National Federation of Independent Businesses (NFIB), 35% of firms have vacancies they are unable to fill at all, a level which has only been surpassed once back in November 2000.

This means that a gradual slowdown in jobs growth is to be expected. But it also suggests that wage pressures are building – and that's the message from today's figures. Average hourly earnings increased by 0.3% on the month, taking the year-on-year rate to 2.7%. Given the skill shortages discussed above, we'd expect this to test the 3% level again over coming months.

> With core inflation set to reach the 2% level again in data released next week, we expect the Fed to raise rates a further three times this year – although of course, policymakers will also have a firm eye on escalating global trade tensions.

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