

Better wage data won't change the market's view on Fed hikes

A strong rebound in wage growth in Friday's jobs report won't be enough to convince markets of the Fed's hike plans.



Rebound in wages won't make markets any less sceptical about the Fed

When it comes to the US jobs report, gone are the days where big swings in non-farm payrolls can make big differences to Fed policy perceptions. Instead, we think a strong rebound in wage growth will be the key thing to look for. But after several months of sluggishness, it's going to take a lot to make markets any more convinced about the Fed's fairly ambitious plan to hike once more this year and three times in 2018.

We continue to expect both wage growth and core inflation (which has also had a disappointing few months) to recover over the next couple of quarters. But that's going to take time and that means the market's scepticism is unlikely to dissipate anytime soon.

Fed funds futures are barely pricing one hike by the end of next year. We think that's a bit low and instead, we expect the next hike in December - but with some Fed voters becoming

increasingly concerned about inflation, four hikes in 18 months equally looks like a stretch.

Here's what we expect from the key numbers in Friday's report...

Wage growth

Pay growth has been surprisingly lacklustre since the start of the year. The 3 month annualised rate of growth current sits at just 1.8%. That's much lower than the 2016 average of 2.7%.

This slowdown is hard to square against the strength in the broader jobs market. Job-to-job flows, typically a sign that firms are struggling to retain talent, remain at multi-year highs. One explanation is that the dip is purely a statistical thing. An alternative Atlanta Fed measure (which is based on the same data) suggests pay is actually rising much faster.

Either way, we continue to expect wage growth to gradually accelerate as the jobs market continues to tighten. But that's going to take time - we think it is very unlikely that wage growth will top 3% this year.

The 3M annualised rate of growth can be a better measure of the current pace of pay rises than year-on-year comparisons

2.5% Average hourly earnings growth (YoY%)
(Consensus 2.5%)

Jobs growth

After a strong 222-thousand reading in June, we're likely to see a correction closer to the underlying trend in July. Importantly, as the economy closes in on full employment (if it isn't there already), you'd expect jobs growth to slow. It would now take a series of very poor (sub-100k) readings to make policymakers worried.

170k Change in non-farm payrolls
(Consensus 180k)

Unemployment rate

June's data saw a small "good" rise in the unemployment rate as 400,000 people entered the work force, with around two thirds finding a job. We expect the unemployment rate to fall back to 4.3% this week. But even a rise this time has to be taken in the context of the remarkable drop in the rate that we've seen since the start of 2017.

4.3%

Unemployment rate

(Consensus 4.3%)

Author

James Smith

Developed Markets Economist

james.smith@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>.