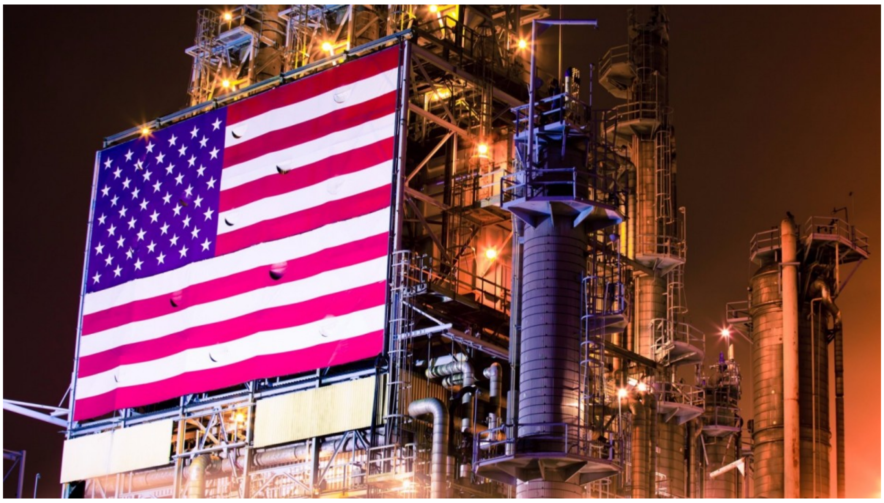
Disappointing US wage growth unlikely to worry the Fed

Hurricanes continue to distort the jobs numbers, but with the economy flying, a disappointing wage figure is unlikely to knock the Fed off-course



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For markets, a further disappointment in wage growth will be the key takeaway from today's data. November's growth in average hourly earnings came in below consensus at 0.2%, following a downward revision to October's figure, although it's still probably worth taking these numbers with a pinch of salt.

Back in September, job losses from the hurricanes were highly concentrated in low-wage sectors, and taking them temporarily out of the sample artificially boosted the average level of pay. November's disappointment could simply be a further correction to this blip.

The Fed will most likely write off this report

A similar logic can probably be applied to the payrolls numbers. On the face of it, a 228,000 increase in jobs during November looks good, but at least some of this is probably down to people returning to work after the disruption. Either way though, policymakers are less bothered by jobs growth these days - they know that the rate of employment growth should be expected to slow as the remaining slack in the economy erodes.

2.5%

Wage growth

(YoY%)

Worse than expected

Given all the noise, the Fed will most likely write off this latest jobs report. Wage growth was disappointing, but given the sheer strength of the jobs market, we would still expect pay to accelerate gradually through next year. More broadly, we agree with the Fed's assertion that most of this year's inflation dip was 'transitory'.

Throw in three-percent economic growth next year, as well as the hawkish rotation in regional Fed voters, and we expect a rate hike next week to be followed by three more in 2018.

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