

## Good US jobs report is clear positive for the Fed

Strong wage growth is key takeaway from July's US jobs report. Throw in decent inflation next week and markets might start tentatively re-aligning with Fed dots



Source: Shutterstock

### Trio of good news from the US jobs report

The US labour report shows payrolls rose 209,000 in July versus expectations of a 180k gain. The net revisions were up 2,000 so a very good outcome given the economic environment. Unemployment fell to 4.3% from 4.4%, as expected, while underemployment remained at 8.6%. There was also good news from wages. They rose 0.3%MoM – the strongest increase since February – which kept the annual rate of growth at 2.5%.

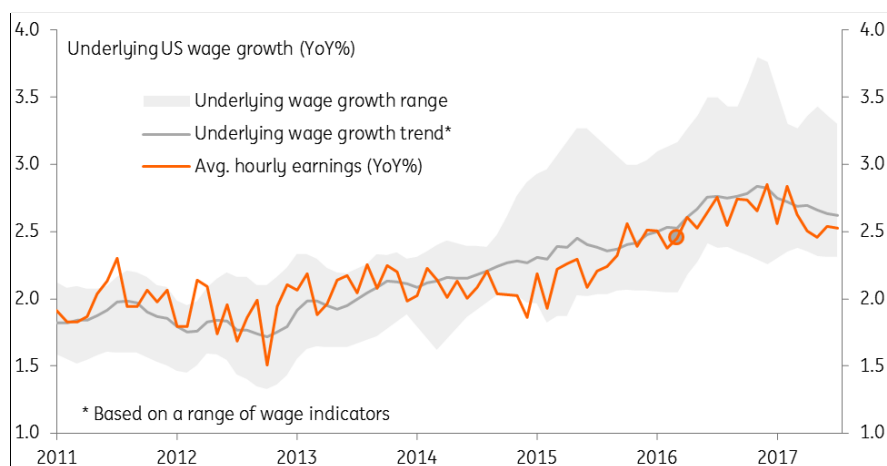
**2.5%** Average hourly earnings (YoY%)

Better than expected

## Strong inflation next week might tempt markets into pricing in more hikes

This is a positive story, but one month of stronger wage growth is not going to sway the market in terms of its thinking for Fed policy. However, next week will see the release of the PPI and CPI reports and both look set to show an increase in inflation pressures. The market is currently looking for headline PPI to rise to 2.3% from 2% (core PPI to rise to 2.1% from 1.9%) while next Friday's CPI report is predicted to rise to 1.8% from 1.6%.

### Wage growth has struggled to gather pace recently



### We expect the next Fed hike in December

This combination of stronger wage, producer and consumer price inflation could nudge the market into thinking that its pricing of only one rate rise over the next 18 months may be too cautious. With the activity backdrop looking reasonable and the economy adding jobs in significant numbers we are looking for a December Fed rate hike followed by two further moves next year.

## Author

### James Knightley

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@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>.