Snap | 9 May 2017

Healthy US jobs report boosts June hike odds

A strong rebound in jobs growth will keep the Fed on its tightening path, but weaker wages might worry some of the doves

Source: iStock

211k

Change in Non-farm Payrolls ('000s)

Previously 79k

Better than expected

As the economy nears full-employment, the Fed is more tolerant of slower jobs growth. But even so, the strong rebound in payrolls offers support to the Fed's assertion from earlier in the week that the slowdown in activity seen in the first quarter is "transitory".

There was also good news in the form of the unemployment rate surprisingly dropping to 4.4% from 4.5% (It was 4.8% just three months ago). Underemployment also fell sharply (8.6% versus 8.9% previously) to its lowest since late 2007, suggesting more and more people are switching from part to full time work.

8.6%

May Underemployment Rate

(A broader measure of unemployment)

Worse than expected

The one disappointment was the fact annual wage growth slipped to 2.5% from 2.6% despite the MoM increase matching the 0.3% consensus forecast. The fact that we are still quite a way away from 3%+ wage growth means that there is no real pressure on the Fed to accelerate the pace of interest rate hikes.

But overall, May's jobs report suggests the FOMC members' forecast that they will hike rates by 25bp on two, possibly three more occasions this year, still holds. The markets remain a little more cautious, pricing in around 40bp of tightening while our official forecast is for just one 25bp hike.

However, this data is not helpful for our call and we will need to see activity numbers continue to disappoint and inflation to come in softer (which is possible given commodity prices). It is also likely that we will need to see President Trump's tax and spending polices failing to make headway for the Fed to re-evaluate the prospective path of interest rates.

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