

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 policies failing to make headway for the Fed to re-evaluate the prospective path of interest rates.

Authors

James Knightley

Chief International Economist, US

james.knightley@ing.com

James Smith

Developed Markets Economist, UK

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>.