

## Three Fed hikes in 2018? Yes, look at the job numbers

A rebound in US wage growth is just one reason we expect the Fed to keep on hiking next year



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Friday's jobs report is going to be another tricky one to interpret as September's hurricanes continue to skew the data. But strip out the noise, and a rebound in wage growth would be another sign that the now extremely tight job market is continuing to exert upward pressure on pay. That supports the broader view of the Federal Reserve that the recent dip in inflation is 'transitory'.

Rising inflation coupled with three percent growth in 2018, "somewhat rich" asset prices and a [hawkish voter rotation](#) mean that there are now several reasons to believe the Fed when it suggests it will hike three times next year. Markets are slowly coming around to this view - there are almost two hikes priced in now - but we still think they have further to go.

Here's what we expect from Friday's report.

## Jobs growth

After such a sharp fall in jobs growth in the wake of the hurricanes (18k in September), October's 261k recovery looked slightly modest to us. This means there is a possibility that the rebound in jobs has a little further to run. Putting a number on this is tricky, but we feel consensus may be a touch too low at 195,000.

Having said that, both the ADP jobs estimate and the employment component of the ISM non-manufacturing survey point to a slightly lower number - although neither are particularly reliable when it comes to predicting the official payrolls number.

Either way, even a seriously disappointing figure is unlikely to bat many eyelids at the Fed. Policymakers expect job gains to gradually slow as the economy runs out of slack.

**220k** Change in jobs growth ('000s)  
(ING Forecast)

## Wage growth

Like employment, wage growth has been thrown around by the recent hurricanes. Most people who couldn't get to work because of the storms are concentrated in the leisure sector. As these workers are typically paid below-average wages, temporarily removing them from the sample meant the overall level of pay was artificially boosted in September.

This effect should have largely fizzled out, and in the absence of any usual statistical quirks that often skew the data, a solid 0.3% month-on-month increase in Friday's jobs report would be encouraging. It would signal that wage growth is back on track as a strong economy, sky-high confidence and rising job-to-job flows are keeping the pressure on firms to accelerate pay rises.

**2.7%** Wage growth (YoY%)  
(ING Forecast)

## Unemployment rate

After almost a million jobs were created in September according to the household survey, it wasn't that surprising to see roughly half of those gains reverse last month. Unemployment also fell quite a bit, which resulted in quite a large exodus from the labour market. Putting this all together resulted in a 'bad' fall in the unemployment rate from 4.3% to 4.1%.

There is a chance this nudges back up to 4.2% in Friday's data. But whatever the case, this is all essentially noise and shouldn't detract from what has been a remarkable fall in the unemployment rate throughout 2017 - a very encouraging sign for the economy as we head into next year.

# 4.1%

## Unemployment rate

(ING Forecast)

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