

US jobs: A likely story...

A surge in payrolls, workers coming back to the jobs market and companies not having to pay staff more is the message from the February jobs report. We have our doubts about this...



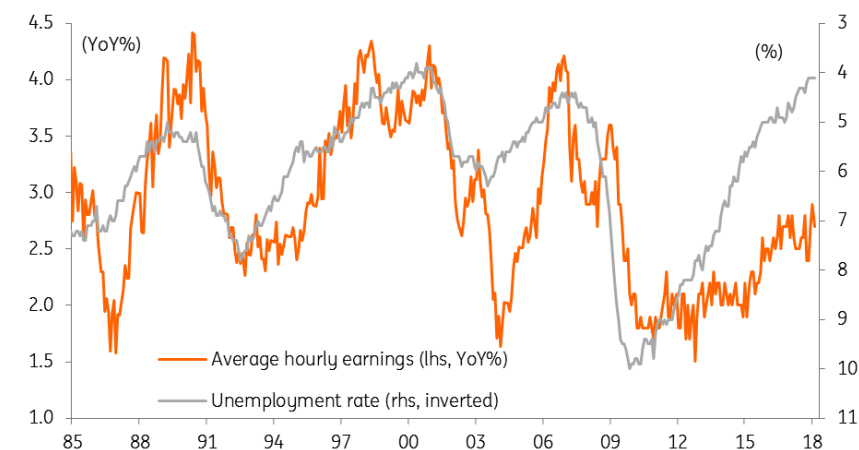
Source: Shutterstock

Too good to be true?

The US jobs report for February shows payrolls rose 313,000 last month (with 54,000 upward revisions), versus the consensus forecast of 205,000 reinforcing the message that a 25bp Federal Reserve interest rate hike on 21 March is a done deal. Despite this, the unemployment rate remained at 4.1%, rather than dropping to 4% as expected while wage growth rose only 0.1% month-on-month, meaning the annual rate of wage growth slipped to 2.6% from a downwardly revised 2.8%.

The working week also increased to 34.5 hours from an upwardly revised 34.4 and the labour participation rate jumped from 62.7% to 63%. Essentially the data says around 800k people suddenly entered the jobs market last month and virtually all found work (unemployment only increased 22k).

On the face of it, this is a fantastic story. Rising wage growth and the prospect of “better” jobs has led people to return to the workforce and companies are able to fill their vacancies without increasing pay i.e. non-inflationary growth. Except that this isn't the story we are getting from other reports.



Source: Macrobond

Other reports tell a different story...

Yesterday's National Federation of Independent Business labour survey showed small businesses are increasingly struggling to find workers with a net 22% saying this is the greatest impediment to doing business (the largest single factor cited). As such, the competition to find new - and retain current - staff meant that the proportion of businesses raising pay was its largest since 2000 and the net proportion planning to raise pay is close to 19-year highs.

With JOLTS data showing that there is only one unemployed worker for every new job opening, it is also clearly a problem for larger corporations. As such, it is taking longer to fill vacancies. Consequently, we are a little sceptical of today's jobs report and instead we think payrolls growth will slow and wage growth will quicken in coming months.

This is just one reason why we think headline consumer price inflation could hit 3% in the summer (others include dollar weakness, rising commodity prices, cell phone data plan quirks and medical care costs). As such, we look for four rate hikes this year, starting in March, with the Fed signalling a clear willingness to do so in updated forecasts

Author

James Knightley

Chief International Economist

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>.