US jobs growth slows... temporarily

The US posted a disappointing 148,000 jobs growth figure in December, but with the economy growing at 3% this is likely to be temporary while upside wage risks remain

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148,000

Job creation in December 2017

... versus the market's 190,000 prediction

The US employment report for December shows a soft headline payrolls increase of 142k versus the 190k consensus prediction and there was a net 9k downward revision to the last two months. Other than that the report was in line with market expectations since unemployment stayed at 4.1% (to 3dp it has dropped from 4.121% to 4.095%) and wage growth rose 0.3% month-on-month and 2.5% year-on-year. There still may be some distortions relating to the hurricanes, but they are likely to be minor.

Goods producing employment rose 55k, so the disappointment came from services this time, which saw employment growth of just 91k – the weakest since the 24k outcome at the time of the hurricanes. We will look to see if this is also reflected in the ISM non-manufacturing employment component, which is due out at 10am ET. If not, then it would hint that upward revisions are likely in next month's jobs report.

With the economy growing strongly (we expect 3% GDP growth this year) and business sentiment at such high levels, we expect the US to continue creating jobs in significant numbers. Unemployment should soon break below 4%, but the big uncertainty remains wages. Pay growth is remarkably weak relative to previous cycles, but we feel that in the current positive economic environment the risks remain to the upside through 2018. As such, inflation pressures are likely to gradually build in the US economy, which in our view will lead to a minimum of three interest rates hikes from the Federal Reserve this year.

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