

Snap | 2 February 2018

## US jobs report - hard to argue against a March rate hike

Wage growth has surged to a cycle high and jobs growth remains strong. Consequently, it will need a big shock to prevent the Fed from hiking in March



Source: Shutterstock

# 2.9% YoY

 Fastest rate of wage growth since 2009

Better than expected

The US jobs report is very strong with payrolls rising 200,000 versus expectations of 180,000. There were some chunky upward revisions too, but the big story is wage growth which looks much, much better. Wages are now growing 2.9% YoY (the fastest rate of growth since 2009) with last month's figure revised up to 2.7% from 2.5%. Unemployment stays at 4.1%, but given the strength of this report, it is hard to argue against a March Fed rate hike now.

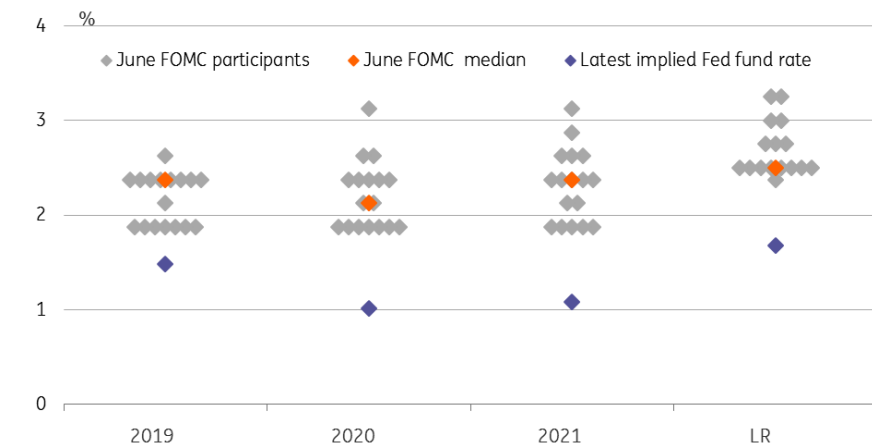
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*The big story is wage growth which looks much, much better*

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Wage growth has been the missing link in the strong economic growth, tight jobs market story. We have been hoping for some time to see a turnaround, and it does finally look as though something is happening. It backs up evidence from yesterday's National Federation of Independent Businesses small business survey, which showed the net proportion of businesses raising worker compensation is at its highest since 2000. The report also showed you have to go all the way back to 1989 to find when the index indicating the net proportion of businesses that plan to raise worker pay was higher.

## Wages starting to catch up?



Source: Macrobond

Given companies such as WalMart have credited Trump's tax cuts as a way for them to afford higher worker pay we suspect we will see the wage numbers pick-up further. Rising wages and robust economic growth is also supportive of our 3% headline inflation call for this summer.

Consequently, it will need a big shock to prevent the Fed from hiking in March, but it could happen in the form of a damaging government shutdown should politicians fail to resolve their differences – next deadline is February 8. Nonetheless, it looks more and more likely that we will have to revise up our call for three Fed rate hikes this year to four.

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