

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

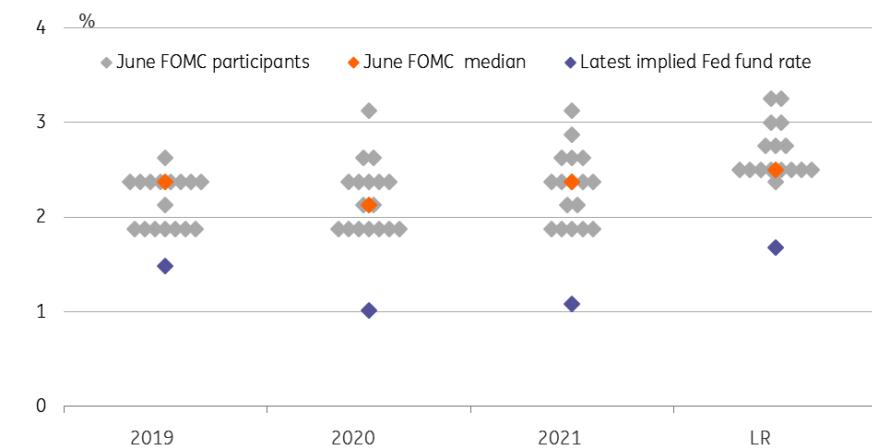
Better than expected

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.

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

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.

Author

James Knightley

Chief International Economist, US

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 www.ing.com.