Weak wage data won’t help Fed convince markets on hikes

A combination of sub-consensus jobs and wage data will only make markets more sceptical of the Fed's current rate hike plans

Source: Federal Reserve

2.5% Average hourly earnings growth (YoY%)

Worse than expected

It wasn't the best jobs report overall, but for the Fed, it's the weaker wage growth that will be most frustrating. It is worth pointing out that this might be explained away by statistical quirks. There were two additional work days in August than July, and that tends to skew the overall average hourly earnings figure downwards (this isn't adjusted for, rather strangely). But in any case, it won't help the Fed convince markets that it wants to hike rates faster than investors currently anticipate.

We're still optimistic that wage growth will pick-up over coming months given the strength of the labour market - in particular, the high level of job-to-job flows. But it's a slow moving ship, and a lack of a near-term inflation turnaround might see some Fed members downgrade their forecasts for rate hikes when the next dot diagram is released in a few weeks time.

Aside from wages, jobs growth was a touch disappointing too. Non-farm payrolls growth came in at 156,000, but we suspect the Fed will be less bothered about this. As the US nears full employment, logic says that job gains should slow, so in reality, it would take consistently horrendous payrolls data for the Fed to really bat an eye-lid. There's also some evidence that August's payrolls are consistently lower on average, perhaps because of seasonal adjustment issues

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