ABN·AMRO

US Watch

Group Economics
Macro & Financial Markets Research

13 March 2017

Strong US jobs report: green light for Fed

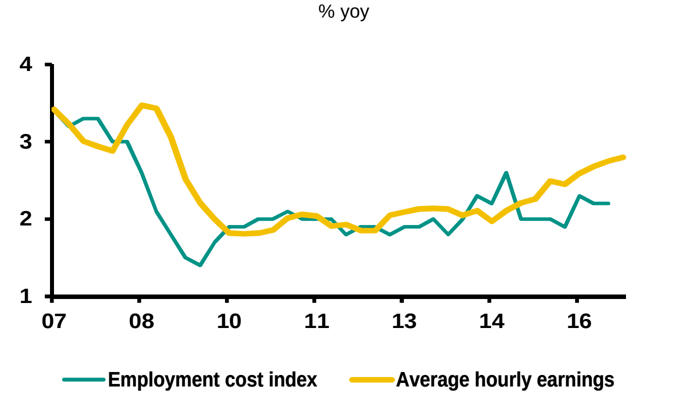
Maritza Cabezas
Senior Economist
Tel: +31 20 343 5618
maritza.cabezas@nl.abnamro.com

- **The US economy added 235K jobs in February, following a revised 238K in January**
- **The unemployment rate edged down to 4.7% from 4.8%**
- **Wage growth accelerated, increasing 0.2%, reaching a 2.8% yoy rate in February**
- **With the labour market tightening, wage growth is likely to accelerate further**
- **This means that a stepping-up of the pace of Fed rate hikes is likely, resuming from March**

Nonfarm payrolls move above last year's average, while wage growth accelerates
Employment continued to accelerate in February, as employers added a greater than expected 235K jobs. Average job gains in the past two months were 236K, much higher than the 186K monthly average in 2016. This clearly shows the labour market continues strengthening. The unemployment rate edged down to 4.7% from 4.8%, while the participation rate increased by 0.1 ppt to 63%. There was also good news from the broad U-6 underemployment rate which fell to 9.2% from 9.4%. The report showed that average hourly earnings increased by 0.2%, after having been revised up to this same level in the previous month. This resulted in wage growth of 2.8% yoy in February, increasing from 2.6% in January. Monthly wage growth is picking up, but it is not yet showing signs of rapid acceleration, despite the continuous labour market tightening. Moreover adjusted for inflation, real wage growth is modest. Another wage growth measure, the employment cost index, has been hovering around 2.2% in the past quarters.

Looking at the details, job growth was quite strong in the goods-producing sectors, particularly manufacturing (+28K) and construction (+58K). This could be a result of an unusually warm winter across the US, which particularly benefits construction. As for manufacturing, sentiment around this activity has been improving and industrial production data has been strong in the past month. Private service providing activities slowed hiring, with retail trade loosing 26K workers. Looking forward, we expect job growth to remain strong, the labour market to continue to tighten and wage growth to firm further.

Wage growth accelerates



Source: Thomson Reuters Datastream

Trump's policies and the impact on employment in the coming time

The new Administration policies could impact the labour market in the coming time: reducing immigration, the government sector freeze and the fiscal stimulus. Reducing immigration could affect both actual GDP growth by reducing the aggregate demand and potential growth by reducing the supply of labour. Around 17% of the US labour force is foreign-born. It is unlikely that immigration policy will affect the entire foreign-born working population. The announcements made so far, suggest that most immigration measures will be directed at reducing illegal immigration. Furthermore, President Trump has announced that he would adopt a merit-based immigration selection system, which means stricter entrance requirements, which could tighten the labour market. Meanwhile, the federal government freeze ordered in January will likely affect future payrolls. In February, the sector only created 2K jobs, down from 4K the previous month. But hiring could be weaker in the coming months. On the other hand, fiscal stimulus could increase the demand for labour. However, the timing and size are uncertain at this point.

Fed: green light for rate hikes

A March rate hike is now a done deal. This report is one of the last reports before the March FOMC meeting. The inflation report will be released on Wednesday and we don't expect that to alter the balance of evidence. Fed officials have been hinting a rate hike in March. This report gives FOMC confirmation that the labour market continues to improve. We expect the Fed to resume rate hikes in March this year, followed by two more rate hikes in June and September, but the risks are tilted towards a fourth rate hike.

Find out more about Group Economics at: **https://insights.abnamro.nl/en/**