

# Flash Comment US

## Fed likely to hike in December despite mixed jobs report for November

### Average hourly earnings disappointed in November

**The jobs report for November was quite mixed.** Employment grew by 178,000 in November in line with the recent trend and without any major revisions to the previous months. The unemployment rate fell against expectations, from 4.9% to 4.6%, but this was due mainly to a fall in the labour force, so it fell for the wrong reason and we could see it bounce back in coming months. This said, it does not change that the unemployment gap is closing but jobs data are volatile just like other economic data releases. **The most disappointing part of the jobs report was average hourly earnings, which fell 0.1% m/m in November** – the first fall since December 2015 and the biggest decrease since December 2014. The annual growth rate fell back to 2.5% y/y from 2.8% y/y. While we think the fall was just a fluke, the Fed monitors wage growth closely, as higher wage growth is a key determinant of the number of Fed hikes.

**Despite the mixed jobs report for November, a Fed hike in December still seems very likely to us.** If we strip away volatility in economic data, we think the combination of better US economic data after the slowdown in H1 16, a tighter labour market, a global economy entering 2017 with synchronised recovery and calm financial markets should be more than sufficient for the Fed to feel confident about raising rates.

**As everyone expects the Fed's next rate increase to come at the December meeting, the most interesting question is how many Fed rate increases to expect in coming years,** especially as we expect Donald Trump to ease fiscal policy significantly. As the FOMC turns more dovish next year due to shifting voting rights, we expect the Fed to offset Trump's more expansionary fiscal policy only partly despite the output gap being already nearly closed. Many of the dovish members (including Fed Chair Janet Yellen) have said that it may be a good idea to let the economy run a bit hot to undo some of the structural damage to the economy caused by the financial crisis. This jobs report shows there is still room for higher wage growth. **Besides higher actual core inflation, we think higher wage growth and lower unemployment rate are among the triggers to determine when the Fed hikes the next time in 2017 after the December hike.**

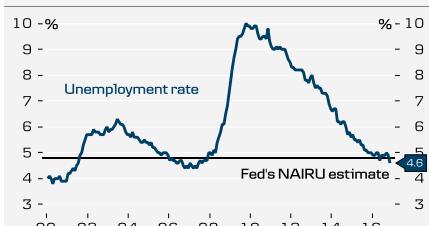
**We expect the Fed to hike twice a year, i.e. a total of five hikes from now until year-end 2018 (including a December hike).** As the markets have also bought into the story that Donald Trump will ease fiscal policy to boost growth, we have seen a significant repricing of the Fed. **Markets have now priced in a total of four and a half hikes before year-end 2018 compared with two before the election.**

### Average hourly earnings fell for the first time since December 2015



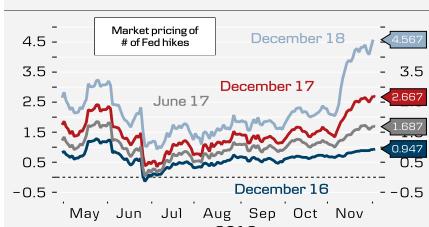
Source: BLS

### Unemployment rate fell to 4.6% but due to a decline in the labour force – wrong reason



Source: BLS

### Markets have significantly repriced the Fed

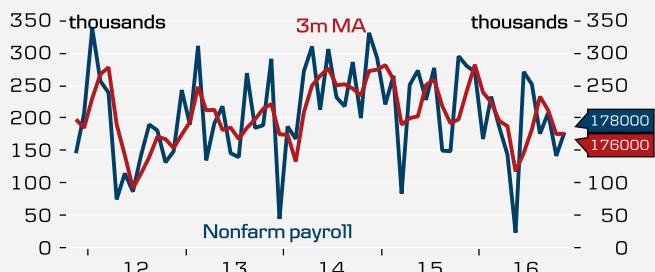


Source: Bloomberg

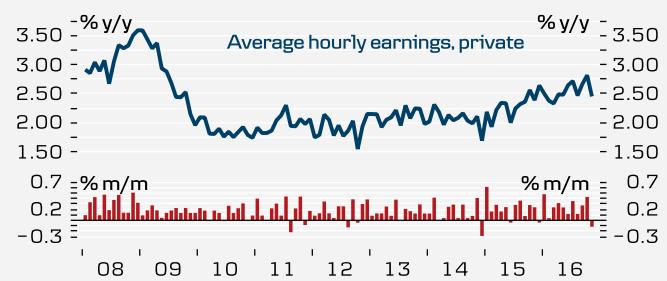
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## Employment

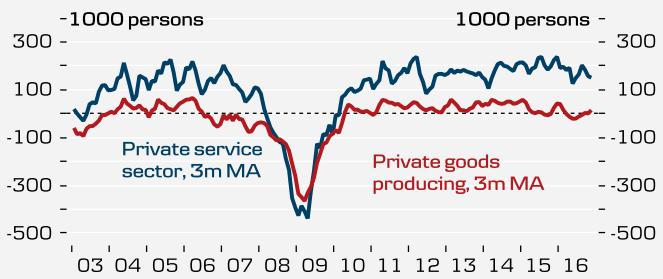
Employment in November grew 178,000 – in line with recent trend



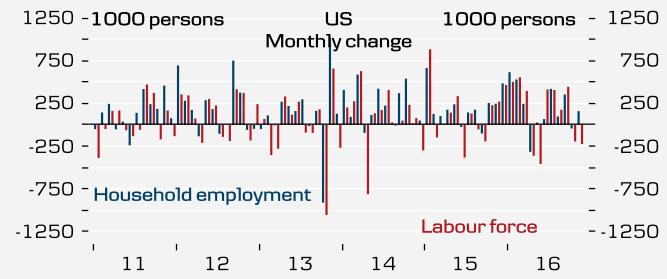
First fall in average hourly earnings since December 2015 – biggest fall since December 2014



Employment still driven by services



Fall in unemployment rate due to a decline in the labour force



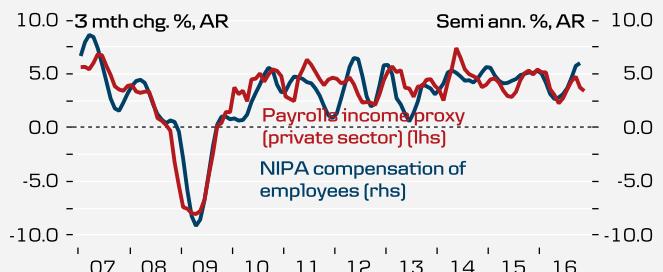
Average weekly hours unchanged in November



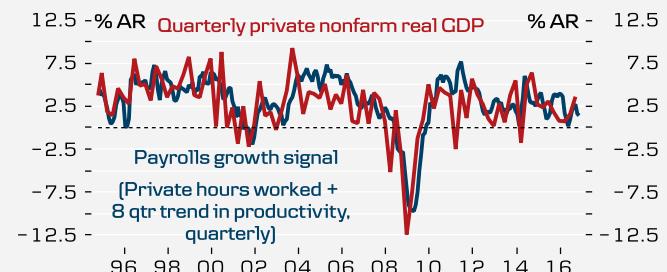
Total hours worked vs payrolls



Payrolls income proxy

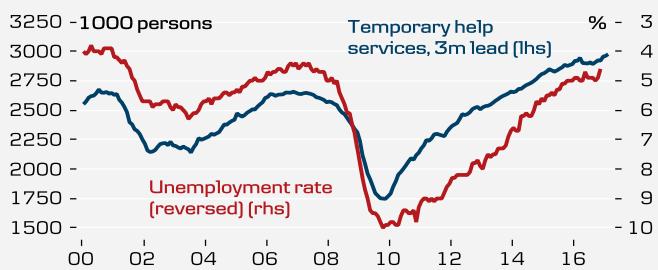


Payrolls GDP signal



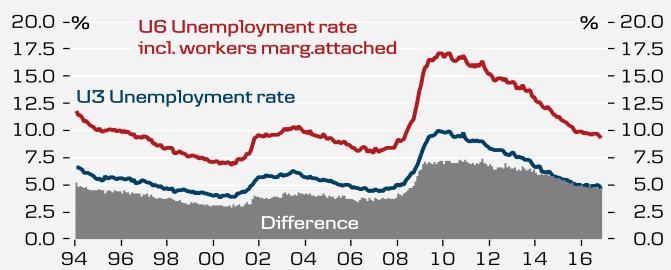
## Unemployment

### Temporary help services and unemployment



Source: BLS, Danske Bank Markets

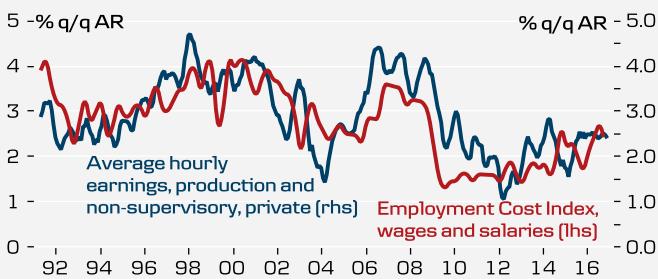
### Unemployment narrow and broad measure



Source: BLS, Danske Bank Markets

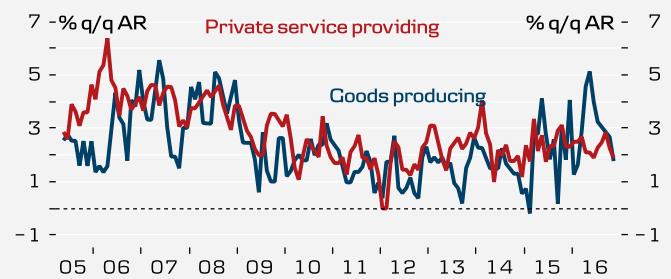
## Wages

### Average hourly earnings and Employment Cost Index



Source: Macrobond Financial, BEA

### Hourly earnings, production and non-supervisory



Source: Macrobond Financial, BLS

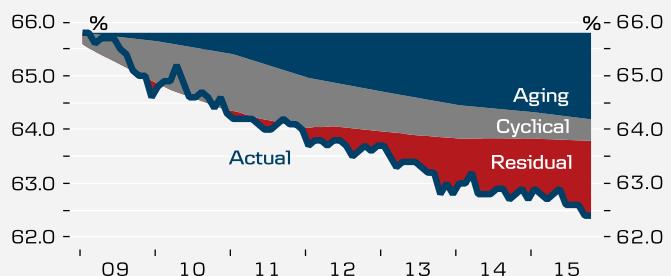
## Participation

### Participation rate, all



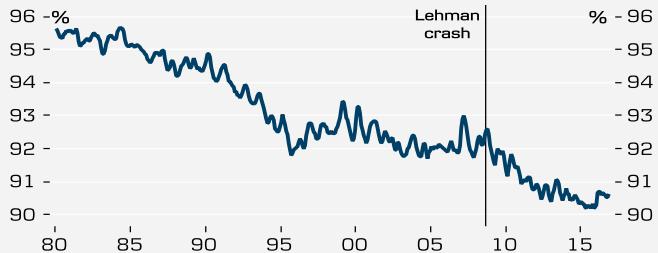
Source: Macrobond Financial, BLS

### Modest cyclical rebound in the participation rate on the cards



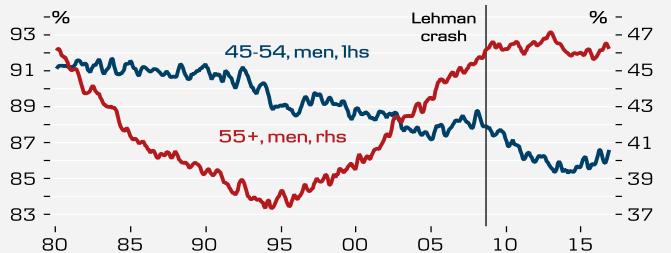
Source: Macrobond Financial, BLS

### Participation rate, 35-44, men



Source: Macrobond Financial, BLS

### Participation rate, 45-54 and 55+, men



Source: Macrobond Financial, BLS

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