

United States

Full employment draws closer as labour market rebounds in April

- **Non-farm payroll growth recovers to show 223,000 gain in April**
- **Unemployment hits seven-year low of 5.4%**
- **Wage growth rises but remains a mere 2.2%**

Employment growth picked up in the US during April, raising the prospect of the Fed hiking interest rates later this year.

Non-farm payrolls increased by 223,000 in April, in line with expectations and up sharply from 85,000 in March. The additional hiring helped push the unemployment rate down to a seven-year low of 5.4%, edging closer to the 5.0-5.2% range which is widely seen as indicative of full employment.

Job market adds to rebound signs

The job market data follow business survey evidence which indicates that the pace of economic growth is picking up in the second quarter after a weak start to the year. Initial estimates of GDP pointed to a meagre 0.2% annualised rate of economic growth in the first three months of the year. Furthermore, more recent trade data suggest that this disappointing figure may even get revised down to show a contraction of GDP. However, [Markit's PMI data](#), which also weakened at the start of the year, have risen in recent months to levels broadly consistent with the economy expanding at a rate of around 3% in the second quarter.

The survey and job market data therefore suggest that the soft patch seen earlier in the year was temporary, linked mainly to adverse weather and port strikes, as policymakers had assumed.

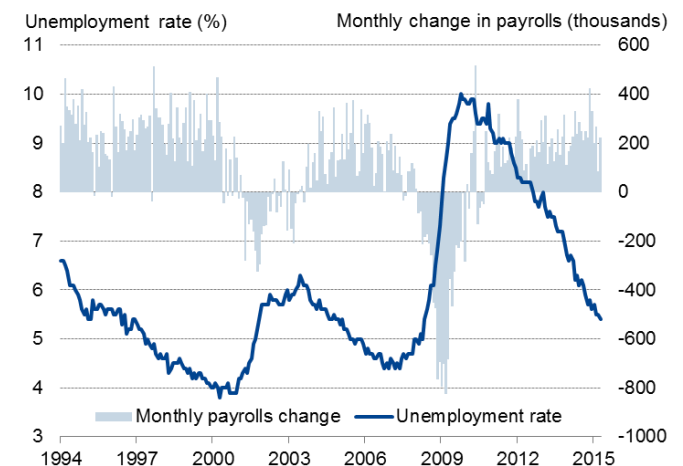
The rebound in the economic data flow adds to the likelihood of the Fed opting to begin the process of gradually raising interest rates later this year, with September looking the most likely start date providing the data remain consistent with the moderate recovery story in coming months.

Wage growth still weak

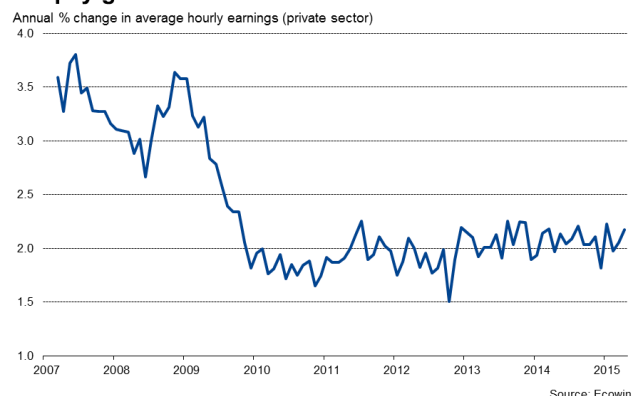
Weak wage growth remained the fly in the ointment of the labour market report, albeit with signs that pay pressures are gradually picking up, with average

hourly earnings rising 2.2% on a year ago. Low inflation is also likely to keep wage reviews down in coming months, suggesting there is little scope for any imminent marked upturn in pay growth. Low pay pressures should in turn help keep inflation down, meaning the Fed should be able to follow a steady and predictable course of small gradual hikes in interest rates.

US labour market



US pay growth



Source: Ecwin.

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