Markit Economic Research
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United States

Employment surge gives green light for December rate rise

- **Non-farm payrolls rise 211,000 in November, with prior gains revised up by 35,000**
- **Jobless rate holds at 7½ year low of 5.0%**
- **Wage growths slows to 2.3%, but unlikely to deter rate hike**

Better-than-expected news on the buoyancy of the US labour market gives policymakers the clear go-ahead to hike interest rates for the first time since 2006.

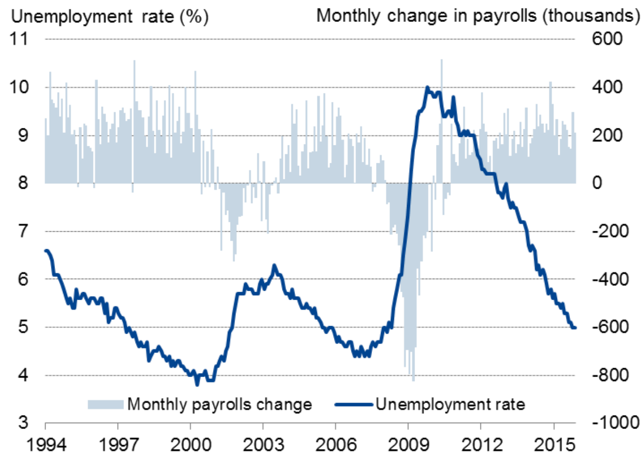
Non-farm payrolls rose 211,000 in November compared to analysts' average expectations of a 200,000 increase. September and October's data were also revised higher, adding to the upbeat picture. The unemployment rate was meanwhile unchanged, but sits at a seven-and-a-half year low of just 5.0%, highlighting the tightness of the labour market by historical standards.

The data follow PMI business surveys showing the economy to have remained in good health in the fourth quarter, with strong growth encouraging a resiliently solid rate of hiring among employers. Although manufacturing is suffering at the hands of the strong dollar, robust domestic demand is powering the economy towards another service-sector led 2.0% annualised expansion in the fourth quarter.

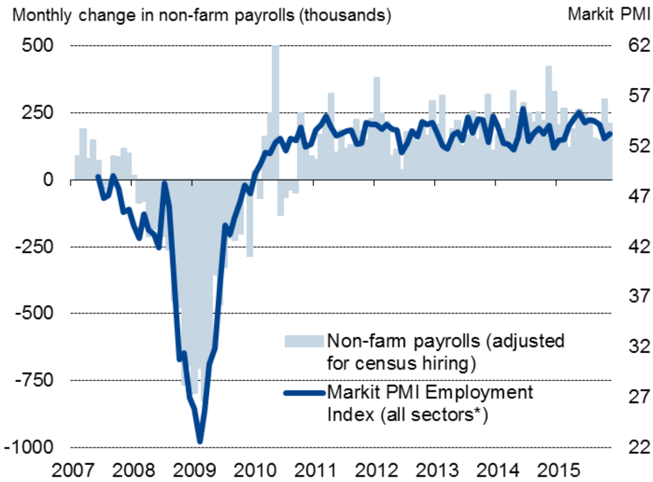
The 'data dependent' Fed will be reassured that the economy is showing no sign of succumbing to worries about the global outlook, as had been feared recently, and that domestic demand is strong enough to withstand an initial hike in interest rates from what were seen as emergency record-low levels some six years ago. A December rate hike now looks to be in the bag.

All eyes will soon focus on the trajectory of rate hikes, and the extent and timing of further potential rate moves in the coming year. With wage growth dipping from 2.5% in October to 2.3%, it is generally seen as unlikely that aggressive action will need to be taken to stave off an unwanted surge in inflation. Instead, the Fed looks likely to be able to sail a gentle course of gradually returning interest rates to more normal levels. Maybe, but such a sanguine scenario is by no means certain: with the hiring trend showing no signs of abating and the supply of unemployed at just 5%, it may not be long until wage growth accelerates and puts the Fed under pressure to take more decisive action.

Employment growth and unemployment rate



Markit PMI v non-farm payrolls



Sources for all charts: Markit, BLS.
** Uses manufacturing data only prior to October 2009.*

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