

# United States

## Labour market strengthening paves way for December rate hike

- Non-farm payrolls rise by 161,000 in October
- Unemployment rate falls to 4.9%
- Wage growth rises to 2.8%, highest since 2009

A solid employment report for October further clears the path for a December Fed rate hike. News of another decent rise in non-farm payrolls and an uptick in pay growth comes hard on the heels of business surveys showing the US economy having gained further growth momentum in October. The improved news flow will surely satisfy the FOMC's desire to see "some further evidence" that the labour market and inflation are continuing to move in the right direction.

It seems that the only remaining obstacle to the Fed hiking in December would be a significant adverse financial market reaction to the US presidential election.

The economy added 161,000 new jobs in October, below expectations of 175,000 but still a robust enough rate of job creation to satisfy the Fed's criteria that the labour market is continuing to strengthen. Prior months' data were also revised higher, helping to further assuage any doubts about the strength of the labour market.

The jobless rate meanwhile fell back to 4.9% from 5.0% in September, though the decline was largely because people dropped out of the labour market.

The icing on the cake is perhaps the fact that wage growth is picking up. Average hourly earnings were up 0.4% in October and 2.8% higher than a year ago; the biggest annual rise since 2009.

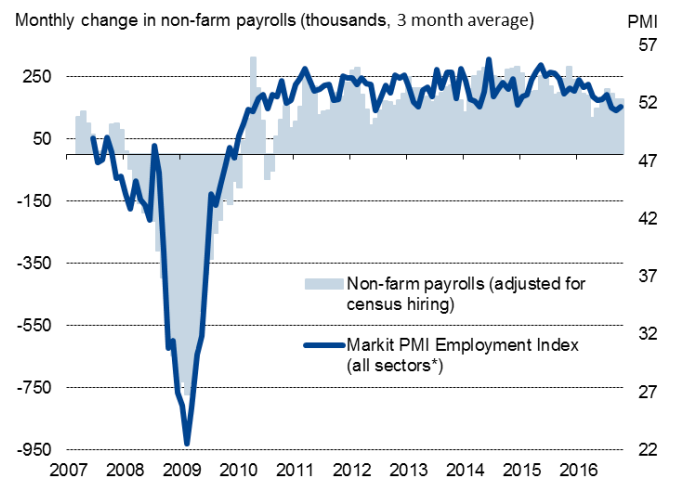
The employment data add to the growing flow of upbeat news on the economy from both official and business survey sources. The economy grew at a 2.9% annualised rate in the third quarter, according to the initial estimate of GDP. IHS Markit's [PMI business surveys](#) meanwhile showed activity rising in October at the fastest rate for nearly a year, suggesting strong growth momentum has been sustained at the start of the fourth quarter.

However, it's clear from the surveys that an undercurrent of business uncertainty persists, linked to

the presidential election. Next week's election therefore holds the key to whether growth lifts higher in the fourth quarter, and whether the Fed hikes rates.

Anecdotal evidence from the PMI surveys indicates that companies are generally expecting customer demand to lift higher after the election uncertainty fades, which partly explained the upturn in business activity seen in the October surveys. However, the surveys therefore also suggest that any ongoing or escalating uncertainty linked to the election result will inevitably drive business activity and hiring lower, potentially delaying any further rate rises into next year. We will of course know a lot more next week.

### US labour market



### US business activity



\*Manufacturing only pre-October 2009.

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