ECONOMIC RESEARCH

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USA

Falling unemployment points to December rate hike

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The jobs report for October surprised on the upside. It not only showed a return to more dynamic jobs growth compared with the preceding two months, hourly wages also picked up markedly to stand 2.5% up on a year earlier. This was the strongest increase since mid-2009. The solid labor market data bolster our expectation that the Fed will start raising key rates in December. The shift in monetary policy is likely to proceed with caution, particularly if the external backdrop remains difficult.

The core inflation rate of the price index for consumer spending remained subdued in the third quarter of this year at 1.3%. Developments on the labor market are of major significance for the inflation process as the unemployment gap is viewed as a key indicator of home-grown inflationary pressure. The main reasons behind the absence of a pickup in wage growth to date are seen in the peculiarities of the US wage mechanism and the fact that the "standard" jobless rate figure might understate the actual amount of slack in the labor market. Meanwhile, however, the US economy is increasingly heading for full employment. The indications in the October jobs report that wage growth is firming up should be confirmed unambiguously in the coming quarters. However, with productivity growth to date still very moderate, the scale of the wage increases is likely to be limited.

You can find an analysis of US wage growth in our Working Paper "Unemployment to drop further without an acceleration in wage growth?" on our website under Publications/Working Papers. Currently only available in German.

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