



In one line: The labor market is tight, and tightening further.

October payrolls rose 261K, below the consensus, 313K. But the net revision was +90K, so the net number was 351K. Unemployment dipped to a new 17-year low, from 4.2%; consensus was for no change. Hourly earnings were unchanged, below consensus, 0.2% The hurricane hit to payrolls was smaller than initially reported, with Sep payrolls revised up by 51K. Aug payrolls - pre-hurricanes – were revised up by 39K. Business surveys now point to 200K-plus increases over the next few months, consistent with the step-up in GDP growth to 3% in the past couple of quarters.

The apparent weakness of AHE is a technicality; average wages were boosted in Sep when lots of lower-paid part-timers/hourly paid people dropped off payrolls as a result of the storms, and the October numbers just reverse that story. Leading indicators point to a clear and sustained acceleration in wages over the next two-to-three quarters. The reported dip in the unemployment rate, meanwhile, reflects a reported 765K plunge in the labor force, which more than offset a reported 484K fall in employment, reversing more than half the 906K Sep leap. We can't stress enough how important it is to ignore these numbers month-to-month. The household survey is much smaller than the payroll survey and, hence, far more volatile. What matters here is that the unemployment rate is now clearly below the Nairu and still trending down, headed for 3.5% in mid-18. The last time the U.S. had 3.5% unemployment, in 1969, core CPI inflation was 6%. That's why the markets' view that the Fed will hike by only 32bp next year is unrealistic.

The first chart shows that leading survey indicators point to very strong payroll gains for the next couple of months, at least. The second chart shows that the NFIB survey points to a clear acceleration in wages by mid-2018. The survey accurately predicted each of the six minor turning points in wage growth since early 2015, six-to-nine months in advance.



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