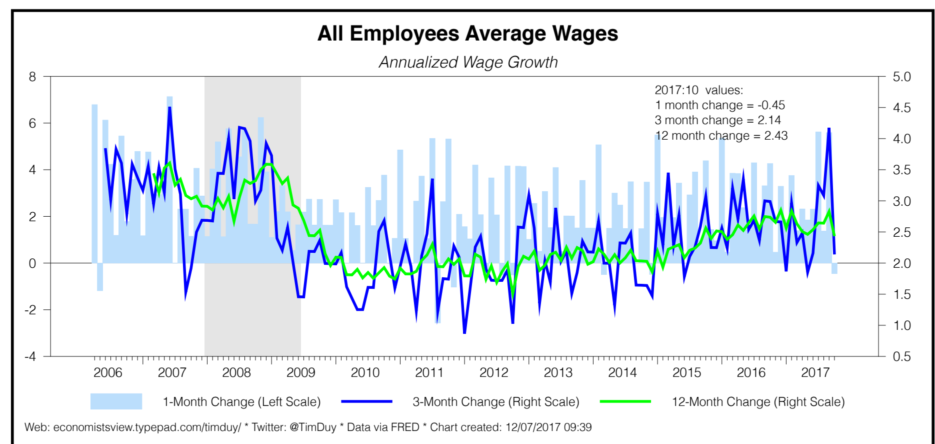
Tim Duy's

Fed Watch

DECEMBER 7, 2017

November Employment Preview



The FOMC meeting next week is anticipated to end with a rate hike. Indeed, this is for all intents and purposes already a done deal. The employment report won't change it. But the employment report could either add or subtract to FOMC concerns that the pace of activity remains sufficient to push the economy toward overheating sooner than later. **The consensus forecast reasonably expects an outcome that leans toward the former, with job gains well above that necessary to hold the unemployment rate constant. That outcome would leave the Fed committed to their inflation forecast and hence inclined to maintain their projected policy path.**

The consensus forecast expects a nonfarm payroll gain of 190k in a range of 153k to 250k. This strikes me as a reasonable expectation consistent with my forecast:

Market participants anticipate the unemployment rate holds constant at 4.1%, with a range of 4.0%-4.3%. To be sure, a decline in the unemployment rate would deepen overheating concerns on Constitution Ave. But I would not expect those concerns to ease much if unemployment stayed constant or even rose given the pace of job growth. Given the Fed's view of labor force growth, they will expect that a payroll gain near the consensus indicates continued downward pressure on unemployment.

Until job growth slows to something close to 100k a month, the Fed will anticipate further unemployment declines. Hence why it would be much easier for policymakers to use the weak inflation numbers as reason to pause if job growth looked to be trending much lower on a sustainable basis. But if anything the opposite is true - the economy appears to have some considerable momentum behinds it and is likely to rack up a third consecutive quarter of 3+% growth as the year ends. This suggest continued demand for labor.

A pickup in wage growth would heighten Fed confidence that the economy is indeed operating at full employment. Wall Street expects wage growth of 0.3% for the month, in a range of 0.1%-0.4%. This translates into a range of 2.5%-2.8% compared to a year ago, putting it potentially at the higher end of recent trends:.

Obviously, the Fed would like to see something on the higher end to help confirm their estimates of full employment. But even if they don't get higher wages, they will anticipate wages gains will eventually accelerate as long as unemployment is poised to remain on a downward trend.

Bottom Line: The Fed would have an easier time paying attention to the weak inflation numbers if the economy has not operating near their estimates of full employment and clearly growing at a pace that will soon surpass those estimates. Consequently, a report near consensus expectations will tend to strengthen their resolve regarding further rate hikes. A report that falls short of consensus, however, would likely be deemed as noise given the generally solid path of economic activity this year.

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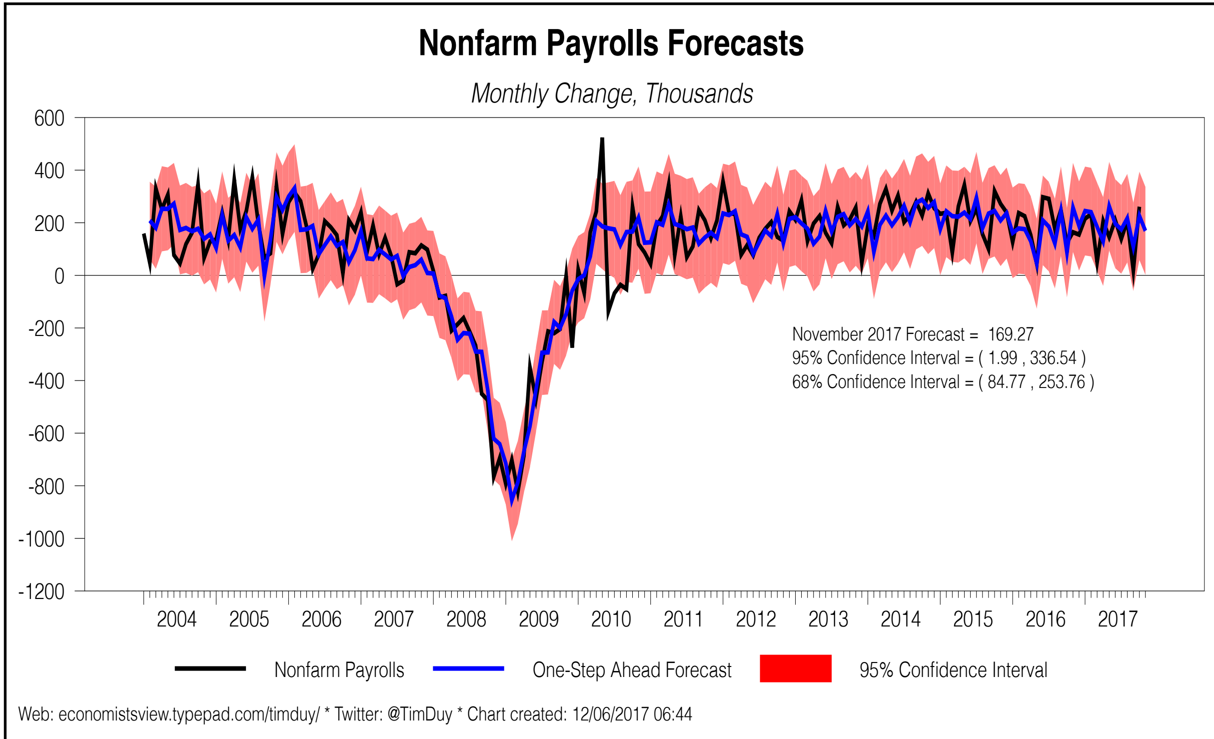

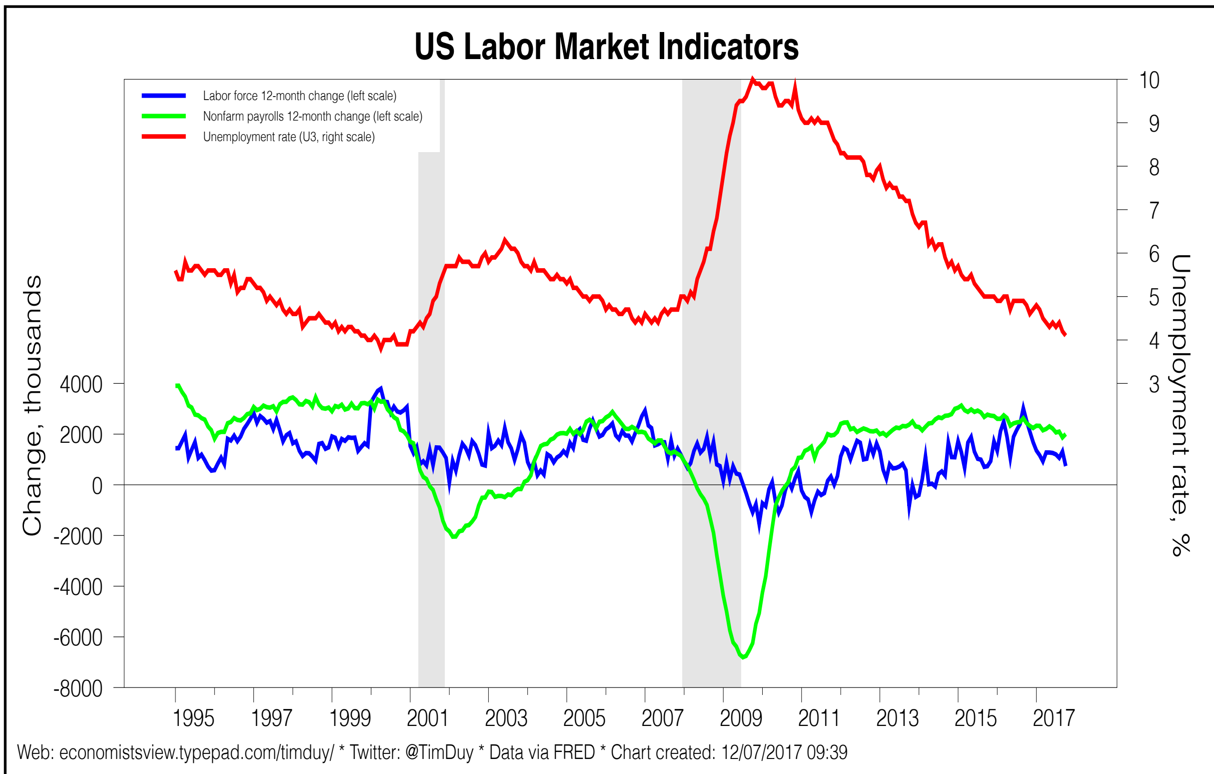

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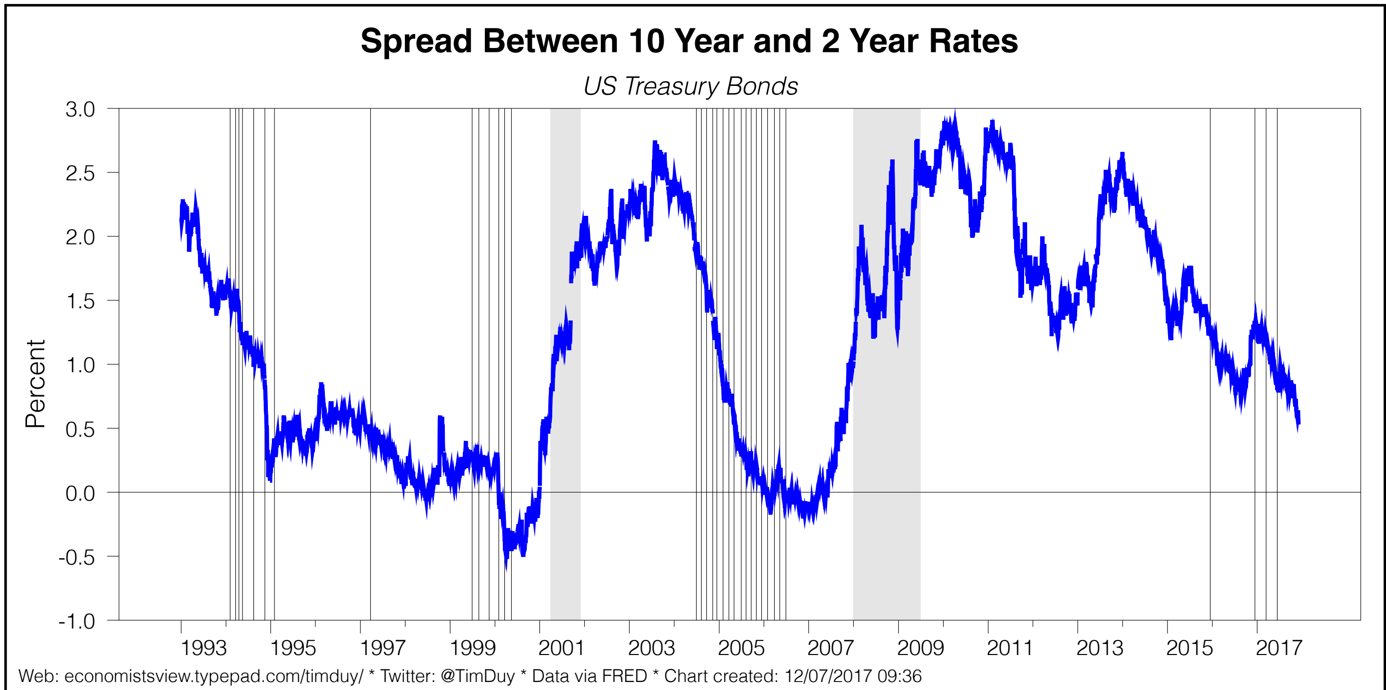

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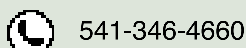
Professor Duy received his B.A. in Economics in 1991 from the University of Puget Sound, and his M.S. and Ph.D. in Economics in 1998 from the University of Oregon. Following graduate school, Tim worked in Washington, D.C. for the United States Department of Treasury as an economist in the International Affairs division and later with the G7 Group, a political and economic consultancy for clients in the financial industry. In the latter position, he was responsible for monitoring the activities of the Federal Reserve and currency markets. Tim returned to the University of Oregon in 2002. He is the Senior Director of the Oregon Economic Forum and the author of the University of Oregon Statewide Economic Indicators, Regional Economic Indicators, and the Central Oregon Business Index.

Tim has published in the *Journal of Economics and Business* and is currently a member of the Oregon Governor's Council of Economic Advisors and the State Debt Policy Advisory Commission. Tim is a prominent commentator on the Federal Reserve. MarketWatch describes his blog as "influential." The Huffington Post identified him has one of the top 26 economists to follow on Twitter, and he is listed on StreetEye as one of the top 100 people to follow to discover finance news on Twitter. Major national and international news outlets frequently quote him, including the *New York Times*, the *Washington Post*, the *Financial Times*, the *Wall Street Journal*, and *Bloomberg*. He also writes a regular column for *Bloomberg Prophets*.

Notice: This newsletter is commentary, not investment advice.



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