US employment

US posts strong job gains in January amid shutdown

Data revives speculation that Fed may lift interest rates further despite recent dovish tone

Hiring by US employers blew away analyst expectations in January with the strongest number in almost a year, reviving predictions that the Federal Reserve may still lift interest rates further despite the unexpectedly dovish tone it adopted earlier in the week.

Non-farm payrolls increased by 304,000 in the first month of 2019, the US labour department said on Friday, crushing Wall Street expectations for 165,000 jobs. Even after a downward revision to December’s number, job gains over the past three months have averaged 241,000.

The unemployment rate ticked up one-tenth of a percentage point to 4 per cent, partly because of the temporary effect of the federal government shutdown, which kept some government employees unpaid and at home.

Jay Powell, the Federal Reserve chairman, took interest rate rises off the table for the time being this week because of his concerns about a series of “cross-currents” from the financial markets and overseas that could blunt the US economic outlook. While Mr Powell set a high bar for future tightening, the new jobs numbers suggest the domestic US economy remains in strong health, belying market worries about the risk of a recession.
“The Fed was forced to be this dovish by the markets — I don’t think it is based on the economy,” said Megan Greene of Manulife Asset Management. “The data suggest the economy is pretty strong.”

The White House quickly leapt on the jobs figures, saying they proved that business optimism is strong and “the economy is thriving”.

The president’s Council of Economic Advisers said January marked the 100th straight month of positive job growth. It argued that the unemployment rate would have remained steady at 3.9 per cent if not for the record-long shutdown, which was triggered by a stand-off over President Donald Trump’s demand for a border wall.

Shares rose modestly in early trading, as the S&P 500 added around 0.4 per cent. The yield on the benchmark 10-year US Treasury was 6 basis points higher at 2.692 per cent.

Corporate confidence has been dented in recent months by Mr Trump’s trade war with China, as well as signs of federal government dysfunction, including the shutdown. Markets were roiled last year by concerns the Fed could be jeopardising domestic growth by raising rates too quickly. Mr Powell this week responded by introducing a period of “patience” following December’s rate rise and declining to say whether the next rate move would be up or down.

The question for the Fed is whether its customary models, which suggest further falls in unemployment will stoke inflation, should still be guiding policy. Mr Powell made no reference to that argument in his press conference on Wednesday, instead suggesting the central bank is content to sit tight and watch inflation readings rather than putting heavy emphasis on job market developments.

A separate report on Friday gauging the performance of US manufacturing from the Institute for Supply Management pointed to a strong performance in January, suggesting US factories are not suffering greatly from the overseas risks the Fed has emphasised. Jim O’Sullivan of High Frequency Economics said the ISM report would also “encourage the view that Fed officials have turned too dovish”.

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Average earnings increased 3.2 per cent year-on-year in January, according to the jobs report, down from an upwardly revised 3.3 per cent in December — still around the quickest pace in a decade. Hiring was spread across a wide range of industries, including leisure and hospitality, construction, healthcare, and transportation and warehousing. The labour force participation rate, which includes those looking for work as well as in a job, edged higher to 63.2 per cent.
James Knightley, chief international economist at ING, predicted the robust employment data would lead to a pick-up in inflation pressures down the road and ultimately prompt the Fed to lift rates further.

“With worker pay on the rise and employees feeling secure in their jobs, consumer spending will likely remain firm while adding to inflation pressures in the economy,” Mr Knightley said. “Fed chair Jay Powell talked of economic and market cross-currents, justifying a pause from the Federal Reserve, but if we can get better news on US-China trade relations, that will lift some of the global gloom.”