Is strong job creation in June enough for the Federal Reserve to consider increasing key rates?

The 287,000 jobs created in June is clearly good news for the U.S. economy. It remains to be seen if there are enough elements beyond the numbers for hires alone to favour the position of the more hawkish members of the Federal Reserve (Fed) monetary policy committee.

Since 2014, the Fed has published the Labor Market Conditions Index (LMCI). This index is an amalgamation of 19 U.S. labour market indicators that is updated the Monday following the release of the monthly employment situation report. The results released today were up from -3.6 to -1.9. This monthly jump is the highest since March 2014. In particular, it stops the strong downtrend prevailing since 2014. Despite this recovery, the LMCI is still in negative territory. It will take several good months of growth to bring it to a satisfactory level.

We note that other elements of the employment situation report released last Friday are less positive. The household survey (more volatile and less reliable) estimates job creation for June at only 67,000, and the number of workers to stay below the recent peak in March 2016.

In terms of employment income, monthly growth in the average hourly wage was weak at 0.08%. The annual change climbed from 2.5% to 2.6%, but this was due to a positive base effect. Monthly growth of 0.19% (the average for the past 24 months) will bring the annual change in the average hourly wage back to 2.5% in July, then to 2.3% in August. As such, the trend remains rather modest. Fortunately, other wage indicators, such as the Atlanta Fed’s, turned in better performances. In May, the gain was 3.5%, the best growth since January 2009.

Implications: There is still too much uncertainty surrounding the global economy and the ambiguity with the U.S. job market to envision an increase in key rates in the short term. In addition, the impact of concerns over Brexit on the real economy is still unknown, and financial markets could continue to see significant volatility. Under these circumstances, the Fed should wait until 2017 to go back to increasing its key rates. But a series of very strong job creation would be a strong argument for the Fed to move ahead with this projection.

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