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Accelerating Jobs Growth Gives Fed License to Tighten Interest Rates Faster in 2017

Comment on U.S. Bureau of Labor Statistics Employment Situation Report
Brian Schaitkin, Senior Economist, The Conference Board

Today's report of 235,000 jobs created in February removes the final barrier to a March rate increase by the Federal Reserve and could pave the way for two additional hikes later in the year. After an unexpected slowdown in January, wage growth picked up in February to 2.8 percent, driven by still tight labor markets and minimum wage increases that went into effect in 19 states at the beginning of the year. Low unemployment rates provide further evidence of a tight labor market and as a result inflation expectations may continue to increase. So far, possible delays in the arrival of fiscal stimulus measures have not dented either business or consumer confidence. Barring downside first quarter GDP surprises, the Fed should have ample evidence to pursue a more aggressive normalization policy.

Faster wage growth has not yet led to a hiring slowdown or an uptick in investment growth. This is particularly true in professional services, health care, and leisure and hospitality. If buoyant business confidence leads to increased investment, this picture will change. Businesses will seek to meet consumer demand through faster productivity growth rather than hiring increasingly expensive workers.

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