STRENGTH OF THE JOBS MARKET IS ONE OF THE KEY DRIVERS OF CENTRAL BANK RATE DECISIONS

This week markets have been focused on jobs. There are various ways to measure the strength of an economy but the number of jobs and how much workers get paid is a fairly fundamental part of the economic puzzle. In the UK, privately compiled jobs data has been positive, but we have to wait until Monday for the official government statistics. US jobs data from the private sector has been a bit mixed but overall shows the labour market over there remains quite strong. The big piece of jobs data in the US is the government's monthly non farm payrolls figure. After a surprisingly strong reading in January, markets are watching to see how February's figures compare.

Federal Reserve chair Jerome Powell rattled markets earlier this week with his testimony to Congress where he appeared to open the way for a 0.5% rate hike this month. Powell suggested the Fed will be guided by the "totality of the data" shows this is necessary. Another strong non farm payrolls report will be a big step towards a bigger hike this time round.

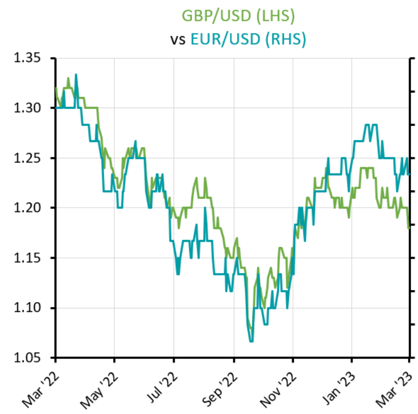
THE MARKETS THIS WEEK

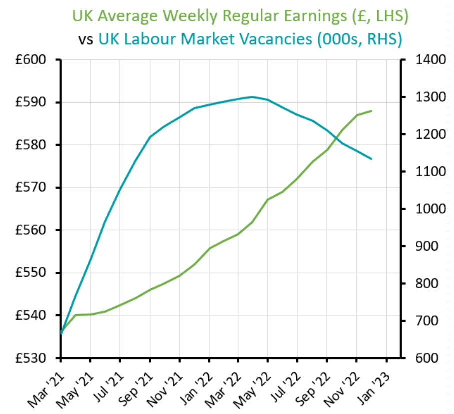
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-0.84%	-3.15%	+2.49%	-0.82%	-6.07%	-0.05%	-0.08%	-4.90%	-0.04%	-0.82%	-0.56%

INTEREST RATES: CENTRAL BANKERS STICK TO THE SCRIPT

Comments by the US Federal Reserve chairman sparked more market volatility when he opened the door to the possibility of a larger hike at this month's interest rate meeting. Jerome Powell acknowledged the economy appears stronger than expected and said if the data supported it the Fed would be prepared to increase the pace of rate hikes. The remarks sent US equities lower and caused the yield on US Treasuries to rise sharply as bonds sold off. Policy makers in Europe have also been setting out the case for continued aggressive tightening. European Central Bank president Christine Lagarde described inflation as a monster that needs to be knocked on the head.

Short-term bonds sold off more than those with longer maturities, which shows markets are expecting rates to rise further in the short-term, but the widespread assumption is that recession will eventually cause rates to fall back significantly. The potential for further interest rate hikes in the US caused the dollar to extend its recent gains.





UK: GOVERNMENT LOOKS TO EASE WORKER SHORTAGE AS HIRING DECLINES

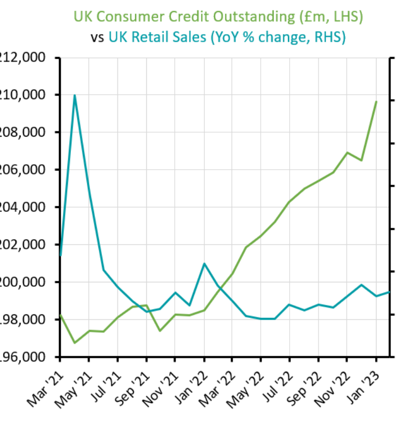
Tight labour markets mean businesses are having to compete to hire new staff. Job vacancies in the UK remain near record highs, but the Recruitment and Employment Confederation reports that permanent appointments fell for the fifth month in a row. Average salaries have also continued to rise as high inflation and a shortage of candidates means employers have continued to increase salaries to fill vacancies. The government is considering loosening visa requirements for construction workers to address the severe shortages, and the hospitality industry is lobbying for similar treatment.

A similar situation is seen in the US, although there are signs that the jobs market may be cooling slightly. Wages continue to rise rapidly and the number vacancies is still very high but this has fallen slightly and the number of people quitting also fell. The non farm payrolls data is the most significant measure of the US jobs market and this will be scrutinised by investors in advance of this month's interest rate meeting.

EQUITIES: RETAILERS BENEFIT FROM RESILIENT CONSUMER DEMAND

Retail spending continues to defy poor consumer confidence as the British Retail Consortium reported relatively robust high street spending in February. Higher prices have seen the volume of goods sold decrease slightly but the value of monthly sales increased by 6.7%, considerably above the 12-month average of 2.4%. Landlord Hammerson said footfall in its shopping centres is back to 90% of pre-Covid levels.

Hammerson said the outlook remains mixed, however. It expects its best locations with premium brands to remain busy but said other locations are starting to see the first signs of cooling. The mixed picture is reflected by businesses with significant high street operations. Greggs said its revenue and profits increased, despite rising costs, and announced plans for another 150 outlets. Next and Primark owner Associated British Foods have recently reported strong trading. However, some retailers are expected to struggle as the rising cost of living erodes disposable income and online retailers have seen sales decline.



Data sourced from FE Analytics and FactSet