

Blowout US jobs report puts 5% 10Y yields in sight

US payrolls surged in September with upward revisions underscoring the strength seen in economic activity over the summer. While we doubt this can last, today's number keeps alive the prospect of another rate hike and certainly backs the Federal Reserve's argument on the need for interest rates to stay higher for longer



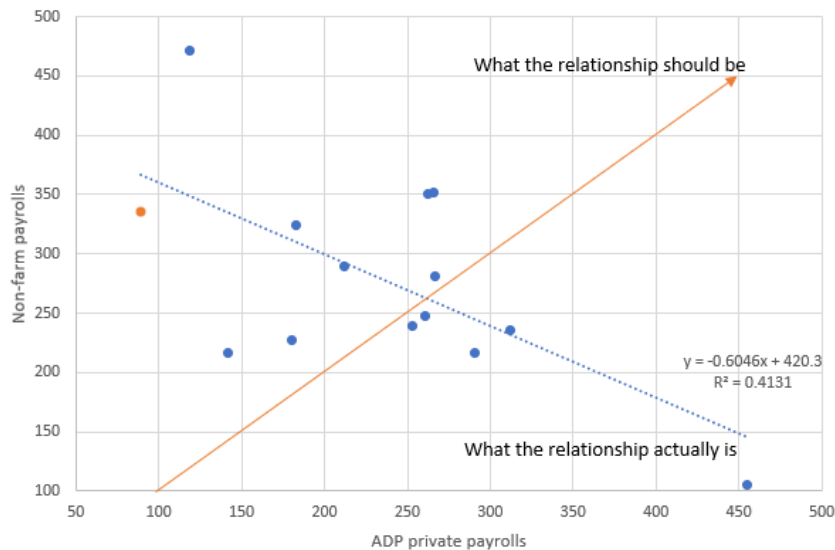
336,000 Job gains in September

Surging September jobs that no one saw coming

Well, what can you say when that happens? The US apparently added 336,000 jobs in September, while there were a net 119k of upward revisions to the past two months. The market had looked for 170k with a range of 90-250k amongst the banks and consultants who submitted forecasts. The ISM reports didn't suggest anything like this would happen, nor did the NFIB employment

numbers and neither did the ADP report, which showed an 89k increase. Well... actually it did in its own special way. The ADP is the best way of forecasting non-farm payrolls right now given its bizarre inverse relationship seen in the chart below. Based on the numbers since January 2022, 89,000 in ADP jobs pointed to 372,000 for payrolls, which would have been the closest forecast!

Inverse relationship between ADP payrolls and non-farm payrolls

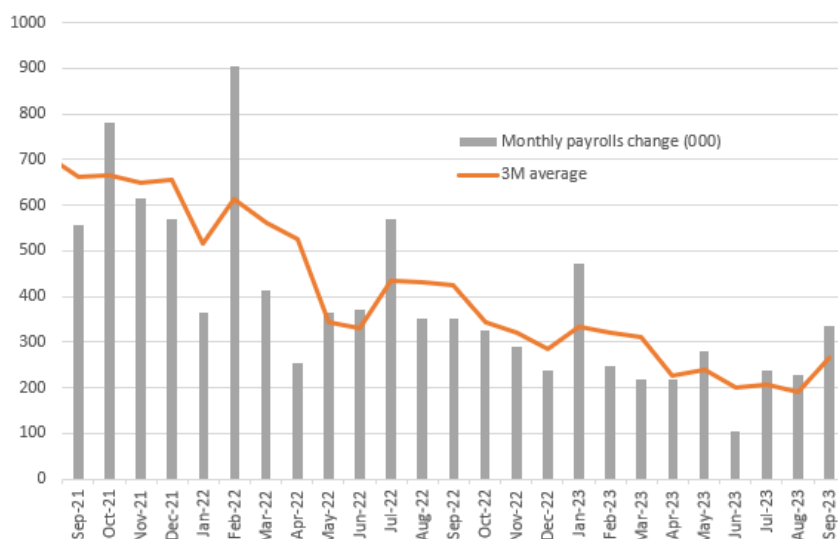


Source: Macrobond, ING

Broad strength with leisure and hospitality in the lead

The details show private payrolls rising 263k with government employment rising 73k. Within the private sector, leisure & hospitality increased 96k with private education & health up 70k and trade and transport up 45k. This leaves the three-month moving average at 266k, which we can't argue against given the strength we will likely see in 3Q GDP. We wouldn't be surprised to see a 4% annualised expansion with Taylor Swift, Beyoncé and Barbenheimer helping to give growth a kick higher.

Non-farm payrolls monthly change & 3M moving average



Source: Macrobond, ING

Some crumbs for the doves, but higher for longer remains the theme

Nonetheless, that is just the establishment survey of employers. The household survey used to calculate the unemployment rate was weaker, showing employment growth of just 86k with unemployment rising 5k. This leaves the unemployment rate at 3.8% rather than dipping to 3.7%, which was what the market was expecting. Wages were more benign as well, rising 0.2% month-on-month or 4.2% year-on-year rather than coming in at 0.3%/4.3% as the consensus predicted.

There are always doubts about data quality when you get such wide discrepancies between different data sources, but payrolls is the number the market puts most emphasis on and we have to acknowledge that such strength keeps alive the prospect of another rate rise and fits with the Fed's higher for longer narrative surrounding the policy rate. The doves will cite the trending higher of unemployment and the subdued wage print, but that won't matter much if next week's CPI and PPI reports come in hot. The current consensus is for core CPI to rise 0.3% MoM, which is still too high for the Fed, which wants to see 0.1% or 0.2% MoM prints. We would still argue that monetary policy is restrictive enough and we don't think that the Fed will hike again, but hot inflation will ensure we hit 5% on the US 10-year Treasury yield.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information

purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.