Cooling US jobs market keeps September rate cut in play

Jobs growth is cooling, particularly in the private sector and the unemployment rate has now broken above 4%, which is helping to keep wages in check. With inflation also looking better behaved the chances of a September interest rate cut from the Federal Reserve continues to build

US job growth is cooling and this could lead to rate cuts by the Federal Reserve

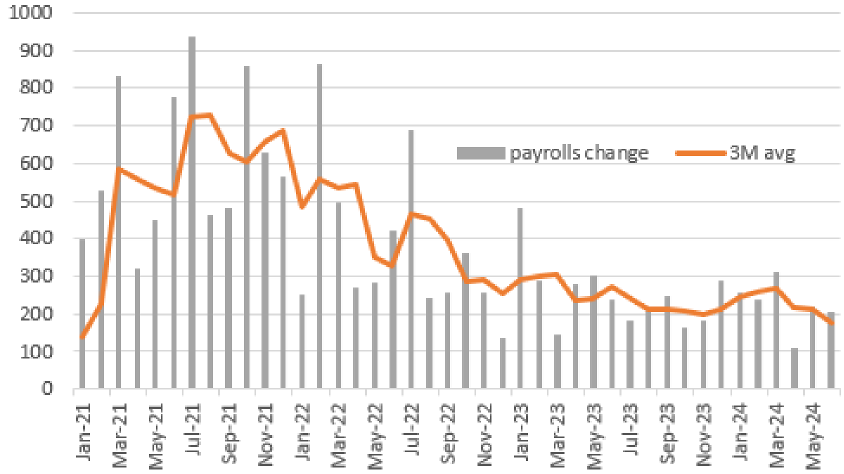
4.1% US unemployment rate

Higher than expected

Weakening jobs trend accompanied by rising unemployment

The June jobs report shows non-farm payrolls rose 206k versus the 190k consensus, but there were some big downward revisions to the history with the previous two months seeing 111k fewer jobs being added than originally thought. As the chart below shows, this indicates a clear cooling in job creation with the 3-month moving average now at its weakest since January 2021. The other big story is the unemployment rate breaking above 4% to 4.1%. This was just 3.4% in April of last year and indicates that slack is forming, which is keeping a lid on wage growth. Average hourly earnings increased 0.3%MoM/3.9%YoY, the slowest rate of annual increase since 2Q 2021.

Monthly change in non-farm payrolls (000s)

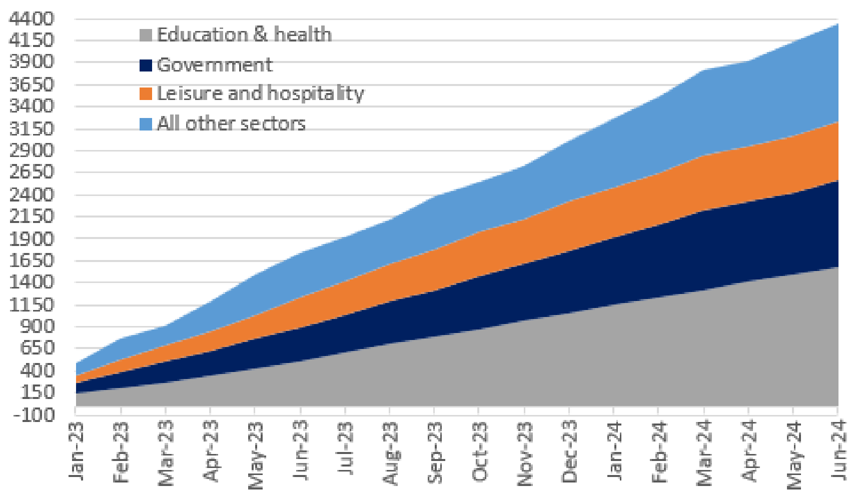


Source: Macrobond, ING

Private sector job creation looks particularly weak

The details show government (+70k) and private education/healthcare services (+82k) remain the dominant areas of job creation. In fact these two sector alone account for 59% of all the jobs added since the beginning of 2023. Another important sector over the past couple of years, leisure & hospitality, was much more subdued (+7k) while retail, temporary help, professional business services and manufacturing all saw job losses. This means private payrolls increased only 136k in June versus the 160k expected.

Cumulative change in non-farm payrolls since 2023 (000s)



Source: Macrobond, ING

September rate cut chances are building

The Fed should be reasonably happy with this report in that it is consistent with their "soft landing" narrative. The economy is adding jobs, but the pace is slowing and slack is forming in the economy with a rising unemployment rate. This is prompting wage growth to cool, which should contribute to keeping inflation on the path to 2%.

The Fed doesn't want to cause a recession if it can avoid it and would prefer to be able to move policy from restrictive territory to "slightly less" restrictive territory if the data allows. Certainly September is very much in play for a first Fed rate cut and those expectations will be boosted further if core CPI comes in at 0.2% month-on-month as expected next week. Our concern is that business surveys are pointing to intensifying weakness in the months ahead – both in terms of cooling economic activity and weaker job creation – and this may lead the Fed to cutting rates more rapidly. We look for three cuts this year versus the two cuts currently priced by markets with the Fed funds down at 4% by next summer.

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