

Decent US jobs growth, but it should be so much better...

The US added 531,000 jobs in October and there were substantial upward revisions to the history, but there is still a sense of mild disappointment. Labour supply simply isn't returning and for companies desperate to hire this is a problem. Pay will have to be bid higher, with those costs increases likely passed onto consumers



Source: Shutterstock

531,000

 US October payroll increase

Jobs growth tinged with mild disappointment

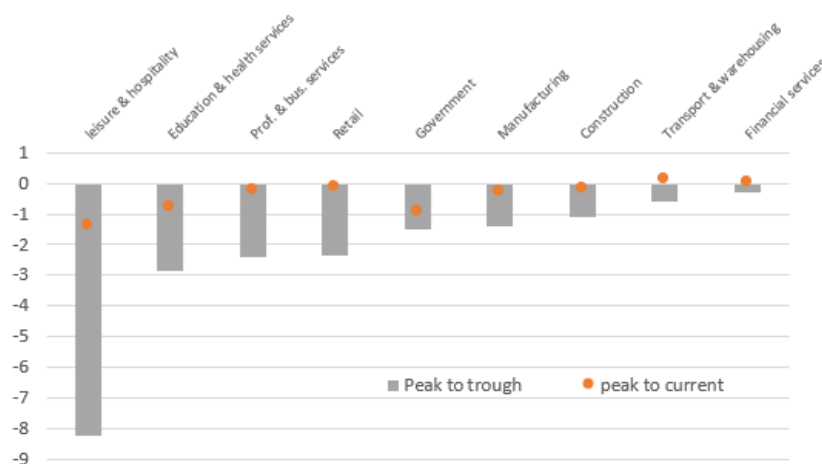
The October US jobs report is very good with payrolls rising 531k versus 450k consensus while there was a chunky 235k upward revision to the past couple of months of data. Private payrolls were particularly good at 604k, with manufacturing up 60k, leisure & hospitality up 164k and

professional/business services up 100k. Employment is still 4.2 million below February 2020s pre-pandemic level of 152.5mn, but we have to remember that the US economy had lost more than 22 million jobs at the lowest point.

The household survey showed a 359k increase in employment and a 255k decrease in unemployment, which was enough to get the unemployment rate down to 4.6% from 4.8%.

This is where there is a mild tinge of disappointment. There was no real improvement in labour supply with the participation remain remaining at a woeful 61.6%. Nearly 40% of people of working age are not engaged in the labour market in any meaningful way and with companies desperate to hire the jobs figures could be so much better if workers were available. This in turn is holding back the productive capacity of the US economy so growth is not as good as it should be while boosting inflation pressures as companies compete for staff.

Employment changes versus pre-pandemic levels



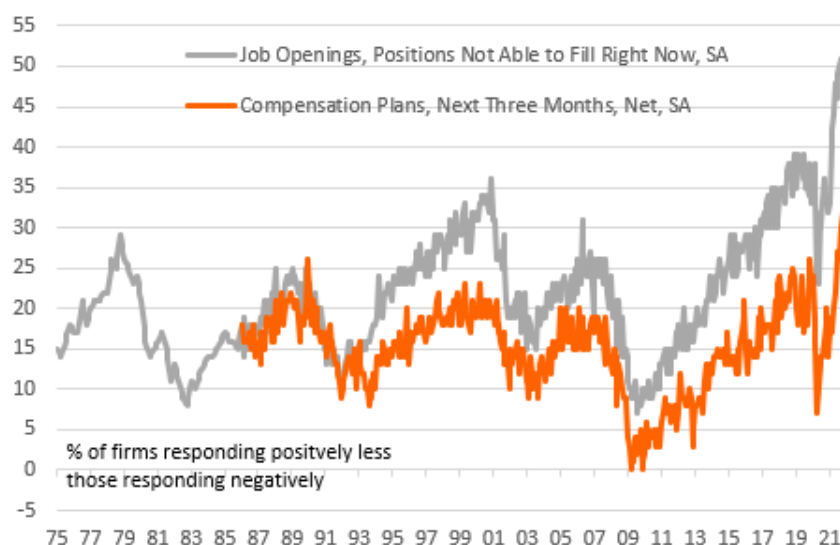
Source: Macrobond, ING

Demand outstrips supply

The key takeaway from the report is that demand for workers continues to outstrip supply. As of August there were 10.5mn job vacancies and that number is likely to be even higher now that Covid cases have dropped sharply and businesses are more confident in the outlook. The proportion of workers quitting their jobs each month to move to a new employer is at an all-time high of 3.3% with firms not only having to raise pay to attract new staff, but also to retain current ones.

This was the story from yesterday's National Federation of Independent Business survey, which reported that 49% of small business owners had vacancies they were unable to fill despite a record net 44% having raised compensation – a 48-year old survey! Moreover, a net 32% of businesses plan to raise worker compensation further in the coming three months.

NFIB survey shows firms can't recruit workers so are raising pay aggressively



Source: Macrobond, ING

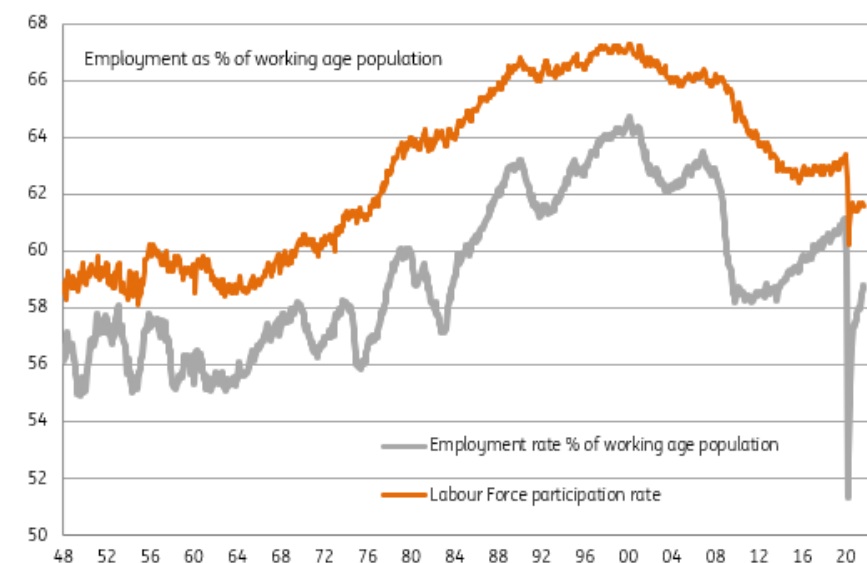
Where are the workers?

The return of in person schooling, the effective Covid vaccine and the ending of extended and uprated unemployment benefits was supposed to see potential workers come flooding back. There is no sign yet and remember that half of all states ended these benefits in July. For no improvement in worker participation come September suggests major rigidities in the labour market.

One reason may be that with household wealth having increased by \$26tn between end 2019 and June 2021 – equivalent to \$78,000 for every American – there isn't the urgency to go and find work. Those gains will not have been spread evenly over the income spectrum, but there is the likelihood that many individuals have built up a financial buffer so don't need to go out and immediately get a job they may not especially like.

However, with the holiday season coming up, which tends to be expensive, the supply of workers could increase in November and December. That said, wealth gains may have led some older workers to decide to take early retirement and they may not return at all.

Labour participation rate and employment as a proportion of working age population



Source: Macrobond, ING

Inflation pressures continue to build

Even if we do see labour supply start to rise in coming months there is a long way to go until those 10.5mn+ job vacancies will be filled. Competition for suitable staff will remain intense. With the employment cost index already jumping 1.3% QoQ in the third quarter we could see a similar size move in the fourth quarter, which would underline the sense that inflation pressures are intensifying. Given this backdrop we see the risks skewed towards the Fed concluding its QE tapering program in 1Q 2022 with at least two rate hikes in the second half of next year.

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