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UNITED STATES

Job slowdown continues, keeping pressure on the Fed for more rate cuts

Job creation continues to slow and unemployment is on the rise, which will mean the doves at the Federal Reserve will continue to make the case for further interest rate cuts. The risk of outright job losses is growing and with mid-term elections less than a year away the political pressure on the Fed to do more will intensify



Job creation is slow and adding to pressure for the Federal Reserve to cut interest rates

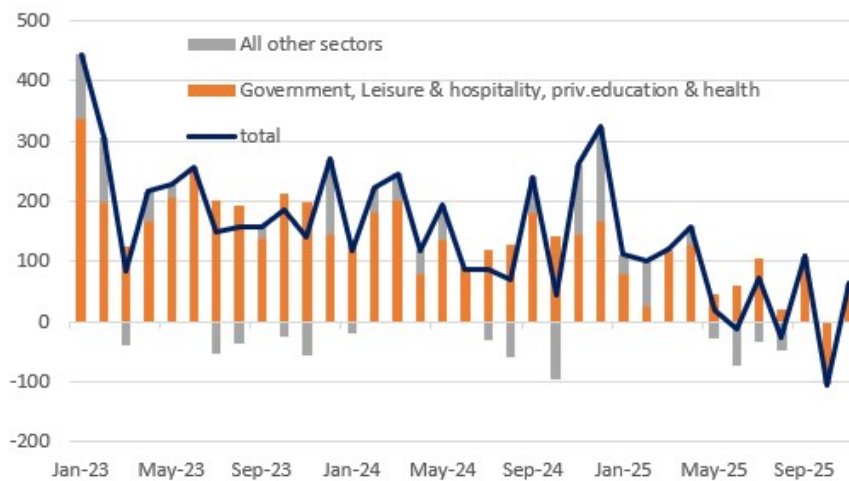
On the Fed's metrics the economy is now losing jobs

US non-farm payrolls rose 64k in November versus the 50k consensus, while October payrolls fell 105k. The unemployment rate is now 4.6% versus the 4.5% expected number and up from the last data point of 4.4% from September. This is a soft outcome overall, with non-farm payrolls growth averaging just 22k over the past three months. Given Fed Chair Jerome Powell's comments last week that they think payrolls are being overestimated by 60k per month, it indicates that the Fed is now effectively acknowledging the economy is losing jobs, which will push the doves to continue making the case for rate cuts.

The details show that 162k Federal government worker job losses were the driver of the drop in October's jobs figure, while there were a further 6k losses in November. The private sector is

still adding jobs (52k in October and 69k in November), but that was virtually all down to private education and healthcare services, which added 59k and 65k in the respective months. The point that we have repeatedly made is that, over the past three years, more than 90% of all the jobs the US have created have come in just three sectors – government, private education & healthcare and leisure & hospitality. Government is now becoming a drag while all other private sectors continue to struggle with net job losses in five of the past seven months in aggregate.

Chart of monthly payrolls changes (000s)



Source: Macrobond, ING

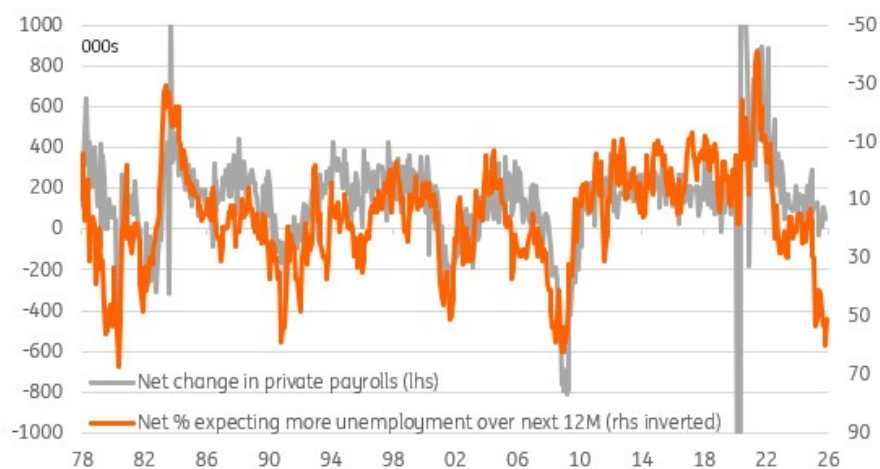
Unemployment is rising and workers are nervous

The November unemployment rate rising to 4.6% comes from the separate household survey. This was not conducted in October due to the government shutdown, but this reports that the number of people classifying themselves as unemployed rose nearly 230,000 since September, while those classifying themselves as employed rose by less than 100,000. Meanwhile, wage rates continue to slow with average hourly earnings rising 3.5% year-on-year, which is the weakest in over four years.

The Federal Reserve's Beige Book suggested that "employment declined slightly over the current period with around half of Districts noting weaker labour demand." This jobs report is consistent with that when we take the three-month average of 22,000 for non-farm payrolls and subtract the 60,000 figure the Fed thinks payrolls is overstated by. An average of around -38,000 is going to mean more political pressure on the Fed to take action as we head into an election year.

Chair Powell acknowledged that the jobs market has cooled “maybe just a touch more gradually than we thought”. Well, the unemployment rate is now higher than they projected just last week and with little sign of an imminent turnaround, we continue to favour a 25bp cut in March and a further cut in June. The chart below, showing that workers are deeply pessimistic about the outlook for the jobs market, suggests the risks remain skewed towards more aggressive action. Workers see and feel changes before they show up in the data and, if the relationship holds, would suggest that the Fed could end up having to cut rates below 3%.

Workers are worried about their jobs, which has been the best lead indicator for payrolls



Source: Macrobond, ING

October retail sales suggests consumer resilience

October retail sales were mixed, with the headline figure softer than the market was expecting. It came in flat on the month, pinned down by weak auto sales on the back of the ending of EV incentives, but we had thought we could have seen an outright fall in headline sales. Instead, the control group, which strips out volatile components and has a better track record of aligning with broader consumer spending trends, was very firm, rising 0.8% month-on-month. This was despite the government shutdown having restricted incomes for millions of households and suggests that even with a cooling jobs market, you can't write off the US consumer just yet.

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