

Article | 7 January 2022 **United States** 

# Jobs squeeze adds to pressure on the Fed to hike rates

The US economy added fewer jobs than expected in December as a scarcity of workers left employers scrambing to find staff. With an unemployment rate below 4% and pay pressure building the Fed looks set to respond swiftly



Source: Shutterstock

### Jobs disappointment, as labour remains scarce

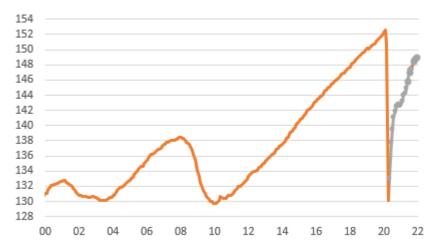
The US economy added fewer jobs than hoped in December. Just 199,000 people found work according to the non-farm payrolls data while there were a net 141,000 upward revisions to the past couple months. Combining these figures gives us an employment gain of 340,000, which is well below the consensus forecast of 450,000.

In reality this is an even bigger miss given many of the forecasts were submitted ahead of this week's data flow which had shown excellent readings for the ADP payrolls numbers, the ISM employment indices, the Homebase data and a Job Openings and Labor Turnover Survey (JOLTS) report that hinted at even larger upward revisions to the historical payrolls numbers.

The Omicron wave shouldn't have had much of an impact given the timing of the survey (week of

December 12) so most of the softness is going to be put down to supply constraints (labour force participation rate remains woefully low at just 61.9%) given all the labour demand surveys are so strong. The unemployment breaking below 3.9% and wages rising 0.6% month-on-month are probably of more significance to the Federal Reserve in this instance.

### US non-farm payrolls (millions)



Source: Macrobond, ING

## Pay pressures are intensifying

So where does this leave us? Well, despite having an economy that at the end of 3Q 2021 was 1.4% larger than it was pre-pandemic, there are still 3.6 million fewer people on company payrolls. Given this week's JOLTS data showed there at 10.5 million job vacancies this reinforces the message that it is a labour supply problem rather than any issue with demand.

This difficulty in finding suitable workers is pushing up pay rates, as we see in today's report, with the National Federation for Independent Businesses (NFIB) reporting yesterday a record net 48% of small businesses raising worker compensation and a record net 32% expecting to raise pay further in coming months.

# NFIB survey shows companies are desperate to hire and are paying more to attract staff

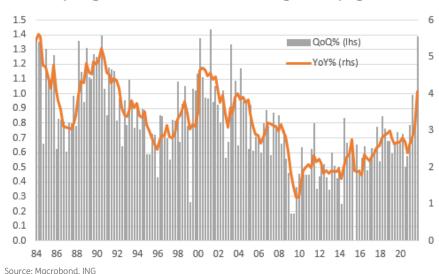


Source: Macrobond, ING

Despite higher pay being on offer there is scant evidence of former workers returning to the labour force with the participation rate at 61.9% and the employment ratio at 59.5% of the population of working age. Consequently companies are having to recruit from competitors, which is why the quit rate hit a new series high with 3.4% of all private sector workers moving jobs in November. This creates broader pay pressure as companies seek to retain staff they currently have by paying them more.

Given the US is largely a service sector economy and employment costs are typically the largest cost this adds to inflation pressures – particularly in an environment where companies appear to have pricing power and can pass these costs onto customers.

### US employment costs are rising sharply



Source. Macrobolia, iivo

### Fed looks to take back control

The recent minutes to the Federal Reserve's December FOMC meeting showed that officials really want to get the ball rolling on normalising monetary policy. They effectively admitted they got the inflation call wrong and now also recognize that the labour market is in a much tighter position than they had previously thought likely – an unemployment rate of 3.9% proves that. Consequently, having suggested just 9 months ago that it would be 2024 at the earliest before the first interest rate rise, the Fed are now saying they are likely to hike rates three times this year and three times next.

The upward pressure on interest rate expectations is not going to let up soon. Next week we expect to see headline inflation break above 7% year-on-year with core inflation breaching 5% YoY while later in the month all eyes should be on the 4Q employment cost index. With the NFIB and the Fed's own Beige Book reporting broadening wage pressures another 1% quarter-on-quarter rise in this index could really tip the balance in favour of a March rate hike and open the door to the possibility of four rate increases this year. For now we are more cautious and think May will mark the starting point for higher policy rates on the basis that the Omicron wave clouds the near-term economic outlook, but this is a fast moving situation and the Fed have signaled they want to get back in control.

### **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.