Mixed messages on US jobs leaves the market little wiser

Companies are reporting a jobs surge in May, yet households are telling us employment plunged. Who to believe? Well, with wage growth continuing to soften and hours worked edging lower the market is thinking the June FOMC meeting "skip" narrative still holds. We agree but are nervous that a hot core CPI print on 13 June could yet tip the balance

339,000 Number of jobs added in May

Jobs blast through expectations

The May US jobs report showed the economy added 339,000 jobs in May, well above the 195,000 consensus expectation – the range of 100,000-250,000 was a narrow one. Upward revisions to the past two months totalled 93,000, underscoring the strength of job creation. This is a survey of employers and it shows that private employment rose 283,000 with private education & health yet again the key jobs engine, adding 97,000 while leisure and hospitality increased 48,000 and professional/business service added 64,000. Government employment rose by 56,000 while manufacturing and IT saw employment fall by 2000 and 9000, respectively.

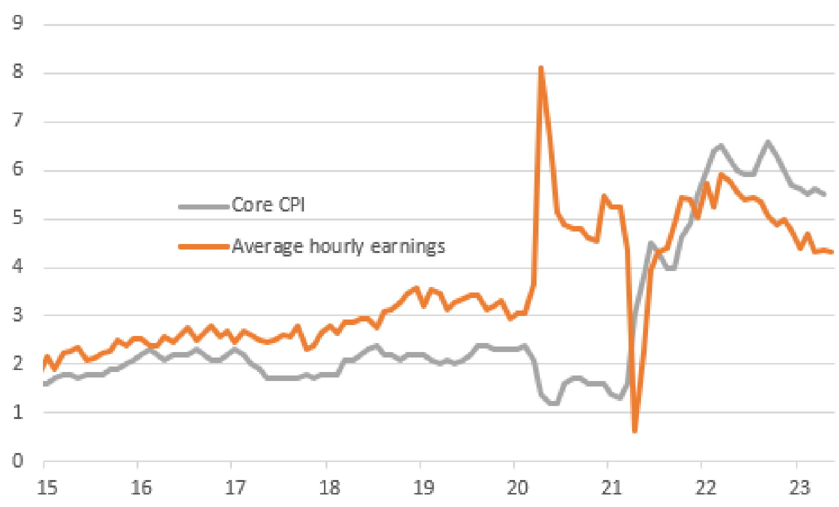
3.7% May unemployment rate

But unemployment and wages tell a different story

However, we then have the unemployment rate jumping to 3.7% from 3.4%. This is calculated from a different survey – one of American households, such as yours or mine. It showed household employment fell 310,000 while the number of Americans classifying themselves as unemployed rose 440,000! So pick which survey you prefer and react accordingly.

Rounding out the numbers we have average hourly wage growth moderating, as expected, to 0.3% month-on-month from last month's 0.5% (downwardly revised to 0.4%). This leaves the annual rate of hourly earnings wage growth at 4.3% - which as the chart below shows is moving in a direction the Federal Reserve would like to see. The contradiction between strong demand for workers amid an apparent dearth of supply yet softening wage pressures is remarkable, but something the Fed will happily take.

Wages growth is undershooting inflation (YoY%)



Source: Macrobond, ING

June "skip" still most likely, but a hot CPI print could make it a very close call

Market rate hike expectations have edged a little higher on the back of this very mixed report. Such divergent outcomes between the household survey and the payrolls number mean that the June FOMC "skip" narrative is seemingly holding for now. Remember, too, that labour data is the most lagging of all the data releases and is the worst guide for where the economy is actually heading.

We'll get to hear a lot of unscheduled Fed speakers in the next couple of hours as they get in ahead of the midnight cut-off for commenting on rates ahead of the 14 June FOMC meeting and that will help firm up expectations a little more. Our house view is that we are at the peak for the Fed funds target range, but we have to remember that we get CPI the day ahead of the June 14 FOMC meeting and a 0.4% MoM print for the core rate (as the consensus is currently expecting) or 0.5% could yet swing the market back in favour of a hike.

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