

## Mixed US jobs data signals September pause

The US economy added fewer jobs than hoped in July, yet the unemployment rate fell and wage growth was stronger. A mixed outcome, which doesn't rule out further rate hikes from the Federal Reserve, but doesn't give the central bank the all clear on inflation risks either. Tighter monetary conditions will increasingly weigh on job creation though



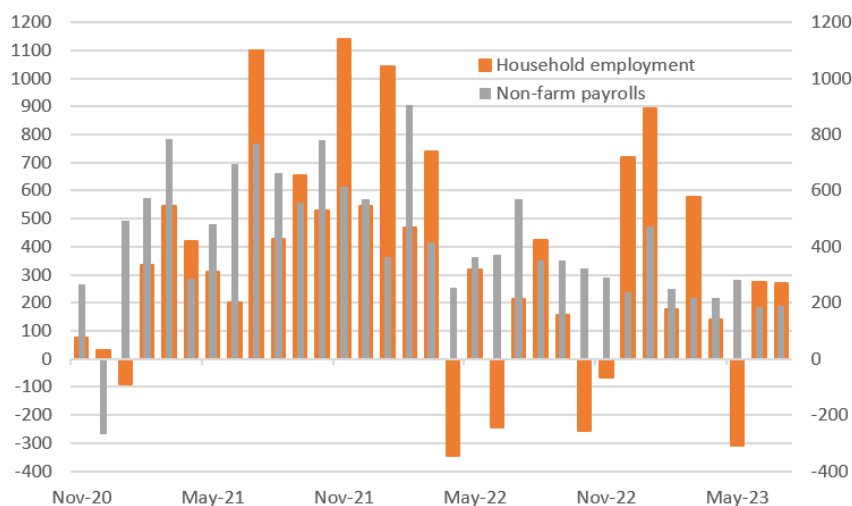
**187,000** Number of jobs added by the US economy in July

### Jobs disappoint, wages rise, unemployment falls

We have a very mixed US jobs report for July. US non-farm payrolls rose 187k versus the 200k consensus prediction and there were 49k of downward revisions. Manufacturing employment fell 2k with private sector employment rising 172k in total, a third of which came from healthcare. This

is all from the establishment survey, which questions employers. The household survey is stronger, seeing the unemployment rate drop to 3.5% from 3.6% with employment rising 268k and unemployment falling 116k.

## Employment change according to businesses and according to households (000s)



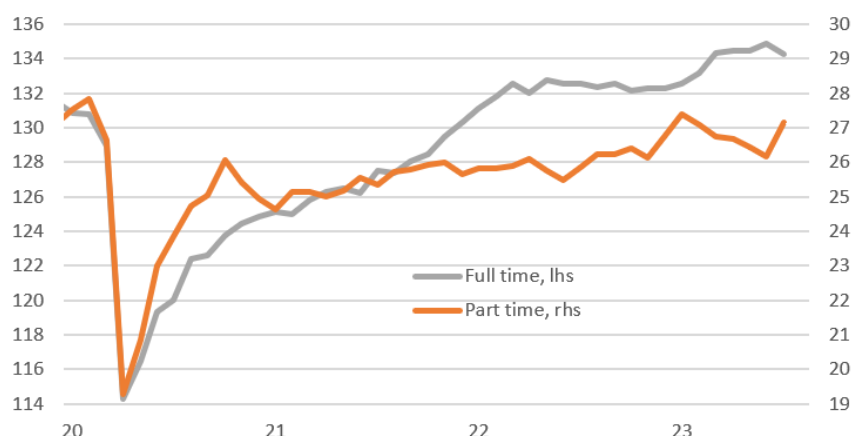
Source: Macrobond, ING

## Fed to remain wary of a tight jobs market

Meanwhile, average hourly earnings rose 0.4% month-on-month/4.4% year-on-year, not 0.3%/4.2% as hoped. The participation rate held steady at 62.6%. The market is seemingly putting more emphasis on the wage and unemployment number rather than jobs, which is fair. Stickier wages and a tight jobs market will make their job of returning inflation to the 2% target more challenging. Nonetheless, this does contradict some of the evidence within the Fed's own Beige Book report that stated "contacts in multiple Districts reported that wage increases were returning to or nearing pre-pandemic levels". The Employment Cost Index, which is a broader measure of labour costs was also lower last Friday so any market moves should be fairly small, especially with CPI and PPI out next week.

One area of disappointment within the household employment survey is that the strength was driven by part-time jobs. The household survey shows part-time employment rose just under 1mn last month while full-time employment fell nearly 600k. So while wage growth apparently remained robust, swapping full-time workers for part-time workers is in aggregate going to lower household incomes.

## Full-time versus part-time employment (mn)



Source: Macrobond, ING

## September Fed pause set to continue

On balance this report doesn't suggest any need for renewed impetus for the Fed hiking interest rates again in September. The Fed have signalled a desire to tighten policy more slowly and the report appears consistent with the gradual cooling of the labour market. As mentioned, all eyes will now switch to CPI and PPI and a couple more 0.2% MoM prints as we and the market expect should further dampen talk of a potential September hike, of which only 4bp or 5bp is currently priced.

Furthermore, the move higher in Treasury yields and the dollar in the wake of the Fitch downgrade and the US Treasury funding announcement only adds to our conviction that the Fed won't need to hike interest rates further. These market moves in combination with higher volatility are tightening monetary conditions and will also put up mortgage rates and corporate borrowing costs. With the Federal Reserve Senior Loan Officer Opinion survey showing a further tightening of lending conditions with the prospect of more to come in 3Q, lending growth looks set to turn negative. This combination of higher borrowing costs and reduced credit availability is going to be a major headwind for economic activity that will help to get inflation down to 2% next year and keep it there.

### Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto: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>.