Resilient US jobs market presents a dilemma for the Fed

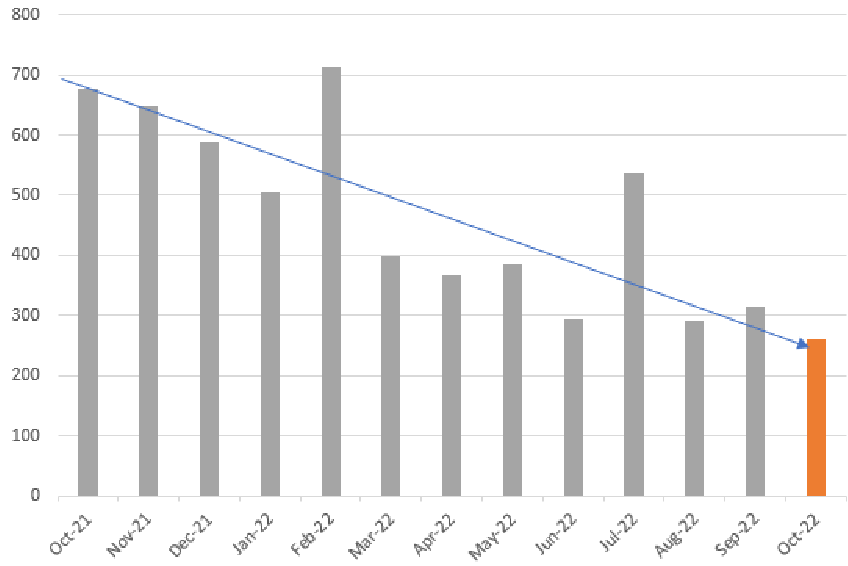
The rate of job creation continues to slow, but the US still added 261,000 jobs in October, which was much better than expected. Meanwhile, average hourly earnings were also firmer, suggesting ongoing inflation pressures from the jobs market. The prospect of the Fed shifting to 50bp rate from December, while our call, is not guaranteed

261,000 Number of jobs created in October

The downtrend in hiring continues...

This report was always going to be viewed in the context of the Federal Reserve signaling earlier this week that it is inclined to moderate the size of rate hikes, but end up at a higher terminal level than they had previously signaled. Well, on the one hand October's 261,000 increase in non-farm payrolls is the smallest gain since December 2020, while the unemployment rate rose to 3.7% due to the household survey used to calculate the unemployment rate showing employment falling 328,000 and labour force participation declining – not a healthy look! The latest job announcements on job losses in the tech sector are also a concern so there is evidence of a moderation in the labour market that the more dovish members of the Federal Open Market Committee (FOMC) can point to.

Monthly payrolls gains (000s)



Source: Macrobond, ING

But there is ammunition for the hawks too

However, the hawks, who think the Fed needs to continue hiking at pace, also have ammunition to back their arguments. The 261,000 figure was well above the 193,000 consensus forecast and there were upward revisions for the past two months totaling 29,000. Importantly, every sector reported job gains with manufacturing up 32,000, education and health up 79,000 and business services up 39,000 the biggest contributors. Remember too that job openings actually rose and there are currently 1.9 job vacancies for every unemployed American, which indicates ongoing excess demand.

Perhaps more significantly for the hawks was the 0.4% month-on-month print for average hourly earnings, which supports that excess demand argument. We had been looking for the third consecutive 0.3% print, which would indicate a clear step down in the rate of wage growth from the 0.4-0.5% typical print over the past couple of years. As such, the Fed are likely to remain wary about inflation pressures emanating from the jobs market.

In aggregate it suggests the labour market remains fairly robust and it keeps alive the possibility of a fifth 75bp hike. Remember though that we do have another jobs report and two more CPI reports before the December 14th FOMC decision. Within those three reports we still feel there will be enought to justify a step down to 50bp.

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