

## Softening US jobs market suggests the Fed's work is done

The US August jobs report shows modest jobs growth, benign wage pressures and a large jump in the unemployment rate as the labour market slackens. With inflation set to continue slowing, the Fed is surely not hiking interest rates in September and is unlikely to do so in November either



A shop advertising vacancies in Maryland

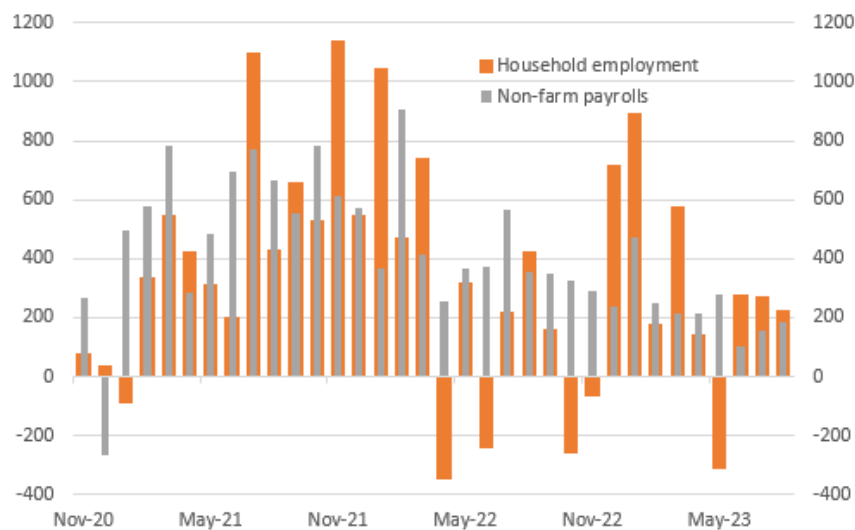
**3.8%** US unemployment rate

### Employment growth is softening

US non-farm payrolls increased 187k in August versus the 170k consensus, but there are a net 110k of downward revisions to the past couple of months, indicating that the slowing trend in employment growth remains in place. The private sector created 179k of those jobs, led yet again by private education and health with 102k jobs. Leisure and hospitality also remains a healthy

provider of employment with a 40k increase. Information (-15k), trade and transport (-20k – presumably Yellow bankruptcy related) and temporary help (-19k) were the key areas of weakness.

## Payrolls gains versus household employment gains (000s)



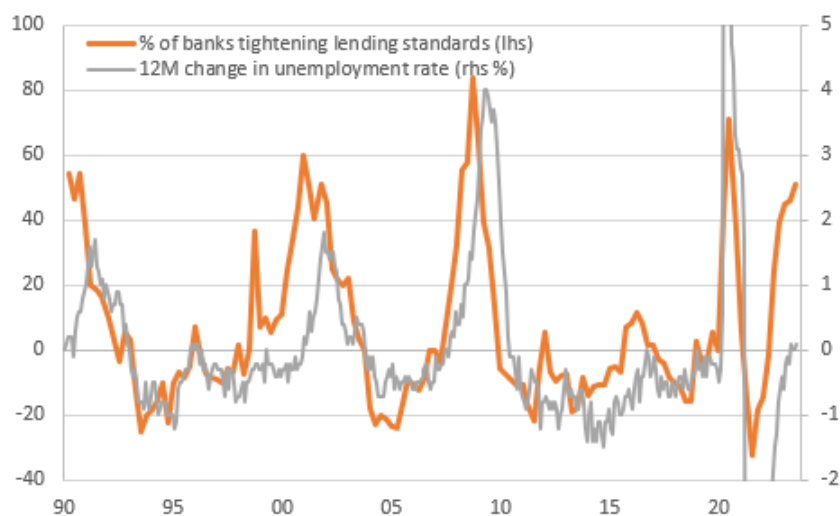
Source: Macrobond, ING

Those numbers are all from the establishment survey of employers. The household survey, which is used to calculate the unemployment rate, reported a slightly stronger jobs gain of 222k, but the number of people classifying themselves as unemployed rose 514k with it seeming that more and more people are returning to the labour market. This increase in the participation rate is what the Fed wants to see and at 62.8%, it has risen nicely since a year ago when it stood at 62.1% and should help to keep wage pressures in check.

## Wages cooling and unemployment is rising

In that regard, wage growth (average hourly earnings) is soft at 0.2% MoM, the smallest increase since February 2022, while the unemployment rate jumps to 3.8% from 3.5% (consensus 3.5%). It's pretty safe to say the Fed isn't hiking in September with this backdrop, and we don't think they will in November either, with core CPI set to slow pretty rapidly in the next couple of months.

## Tightening lending conditions point to a higher unemployment rate



Source: Macrobond, ING

### The Fed's work is done

The chart above shows the relationship between bank lending conditions and the unemployment rate. With higher borrowing costs, less credit availability and student loan repayments all set to increasingly weigh on economic activity we fear that the unemployment rate will climb further. Unfortunately, it is unlikely to be just through rising participation rates but will likely involve some job losses too. As such, we continue to believe that US interest rates have peaked and the next move will be a cut. We are currently forecasting that to happen in March 2024.

### Author

#### James Knightley

Chief International Economist

[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>.