

Strong jobs report boosts prospect of a 75bp Fed hike

With job creation remaining strong, the unemployment rate at just 3.6%, and wage growth continuing to exceed 5% year-on-year, the case for a 75bp hike on 27 July looks strong. Such a move should all but be confirmed next Wednesday when inflation moves to a new cycle high



Today's US jobs data will be key in determining whether this week's risk-positive trend has further room to run

372,000

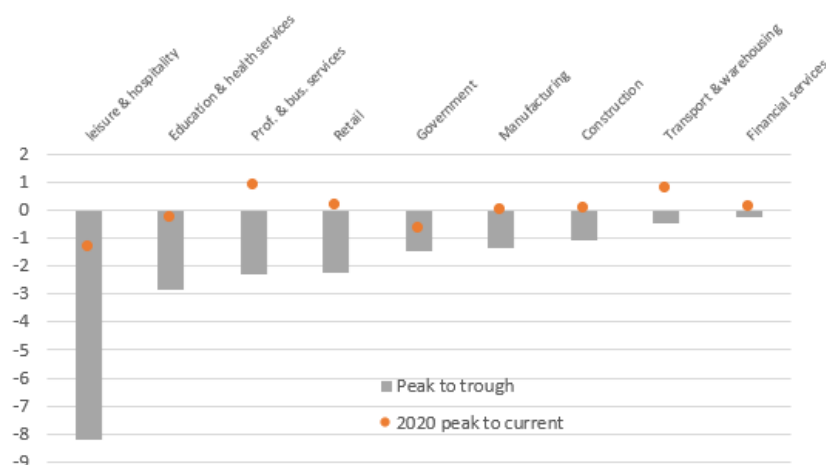
Number of jobs created in June

Strong jobs number will keep the Fed on course for 75bp

The US created 372,000 jobs in June, well above the consensus expectation of 265,000 with private payrolls up 381,000 versus expectations of a 233,000 outcome. There was a net 74,000 of downward revisions to the past two months of data, but this is still a very solid report which suggests the US economy remains in good health. With next week's CPI report set to show inflation

inching towards 9%, this should firm up expectations for a 75bp Federal Reserve rate hike on 27 July.

Employment change by sector – pre-pandemic peak to 2020 trough and current level vs pre-pandemic high (millions)



Source: Macrobond, ING

This means total payrolls are now just 524,000 below the pre-pandemic highs with the chart above showing the main area of weakness remains leisure and tourism where employment is still 1.3 million below the February 2020 level. This is not for the want of trying to hire, with a lack of candidates wanting to do the jobs remaining the key issue. The next weakest sector is government, but with tax revenues rising we are hopeful of improvement through 2023. Most other sectors are at all-time highs for employment.

Nearly two job vacancies for every unemployed American



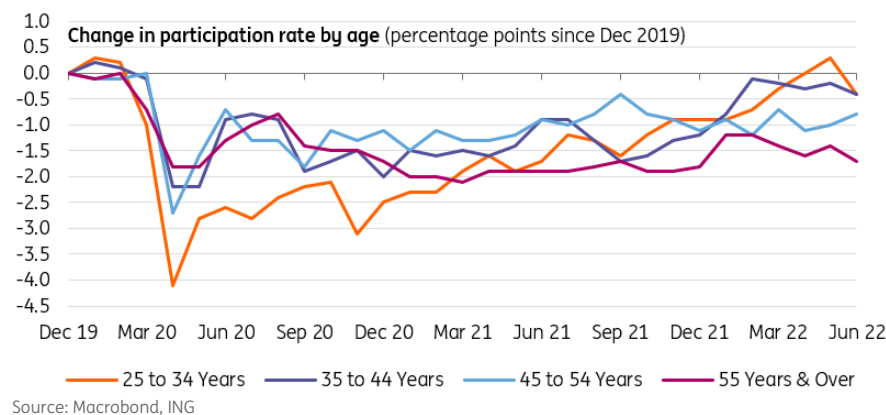
Source: Macrobond, ING

Workers remain in short supply

The other details show the unemployment rate remaining at 3.6% with wages rising 0.3% month-on-month, 5.1% year-on-year, both of which were as expected. The one negative was that the labour force participation rate fell from 62.3% to 62.2% (consensus 64.4%). The narrative had been

that falling equity markets would likely lead to some people who had taken early retirement to re-appraise their situation and return to work. This isn't happening (at least not yet) and suggests that companies will continue to struggle to find workers with the right skill sets required. After all, there are nearly two job vacancies for every unemployed person with yesterday's NFIB survey reporting that a net 50% of small businesses had vacancies they couldn't fill.

Older workers are where the shortages are (labour force participation rates by age %)



Fed to remain on the brakes

Today's report is a rare spot of good news after a disappointing run of activity numbers. While markets and economists are increasingly worried about the economic outlook, it appears companies remain upbeat on their own progress with the appetite to hire appearing undimmed. Nonetheless, it makes it all the more likely that the Fed will respond aggressively to the inflation threat with further significant rate hikes (we look for additional 50bp moves in September and November with a final 25bp hike in December). It also makes it more likely the market will test EUR/USD parity in the coming days.

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