

## Strong US jobs, but market angst means the Fed is in the balance

Another strong jobs figure for February would on its own have boosted market expectations for a 50bp rate hike on 22 March, but market angst is on the rise. Monetary policy operates with long lags and higher borrowing costs and reduced access to credit are going to make the jobs market look a lot weaker later in the year. The likelihood of policy reversal is high



US jobs growth was strong once again in February

**311,000** Number of jobs added in February

Better than expected

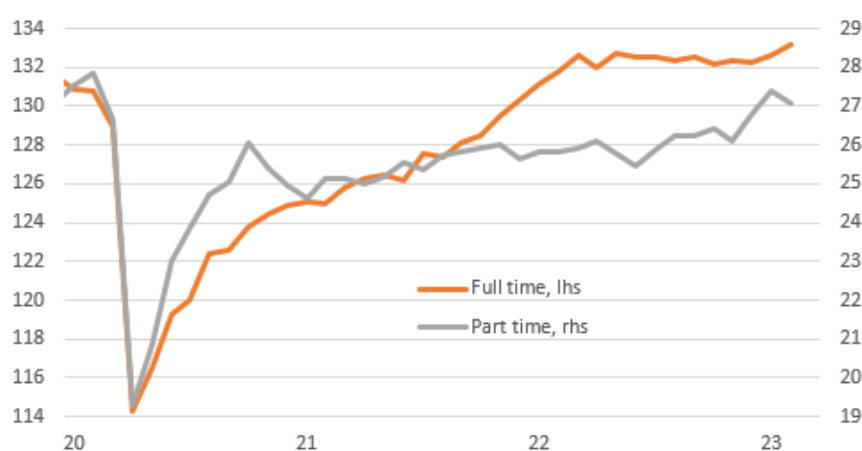
### Strong headline jobs growth, but the composition should be considered

US non-farm payrolls rose 311k in February, above the 225k consensus. There were 34k of downward revisions to the past two months of data, but this is still a strong number. A third of the

jobs created were in the leisure and hospitality sector while retail added 50k, trade and transport rose 38k and private education/health gained 74k. Those sectors that didn't do so well include manufacturing, which fell 4k and financial services, which was down 1k.

One of our concerns about the labour market is that we are seeing a big pick-up in lay-off announcements in well-paid, full-time sectors such as technology and financial services while the growth has been in lower paying, less secure, part-time sectors such as leisure and hospitality. This caution remain valid, but at least this month we did see the job growth coming from full-time positions. Nonetheless, as the chart below shows, the number of full-time Americans in work has effectively flat lined since March last year. Virtually all of the jobs created on balance over the past 11 months have been part-time, which isn't a sign of strength. Therefore the composition of the jobs created is an important consideration in gauging the strength of the economy.

### Full-time versus part-time employment levels (millions)



Source: Macrobond, ING

### Market angst and bank caution means the jobs market will weaken

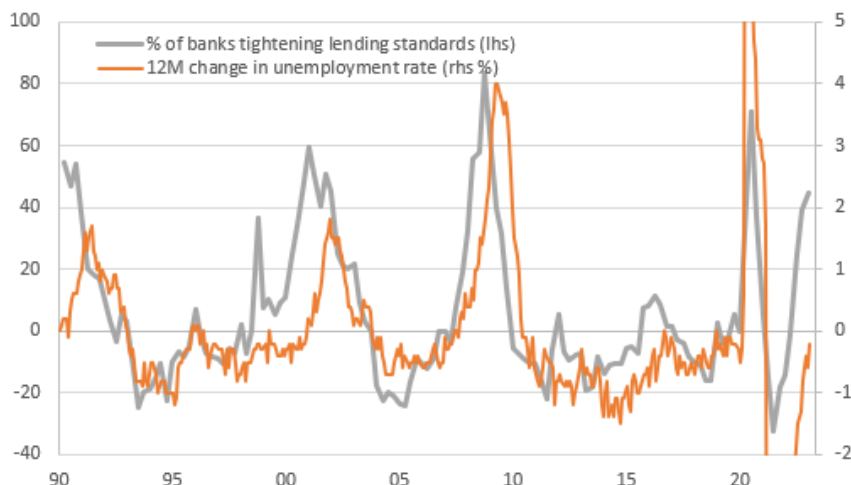
Moreover, the report isn't strong throughout with average hourly earnings coming in below expectations at 0.2% month-on-month/4.6% year-on-year and the unemployment rate ticking up to 3.6% from 3.4%. Indeed the household survey showed employment rising a more modest 177k while the labour force grew 419k.

We are concerned that the labour market is a lagging indicator – it is the last data point to turn in a cycle – and the outlook is becoming increasingly challenging. Certainly, we have been experiencing the most aggressive period of monetary policy tightening for 40 years and our long-term fears have been that the harder and faster you go into what we would term “restrictive” territory, the less control over the outcome. As a result, we are constantly looking for signs of stress and clearly concerns about the stability of Silicon Valley Bank (SVB) and potentially other institutions are making investors nervous right now.

The January Federal Reserve Senior Loan Officer survey has shown banks are becoming much more cautious with the proportion tightening their lending standards having increased significantly over the past two quarters. Therefore, we should not only be concerned about the rapid rise in borrowing costs, but also access to credit. Struggling companies and households are

going to find themselves under intensifying pressures, with the chart below showing that typically when you see spikes in bank caution, the real world on activity and jobs isn't far behind. Indeed, this charts suggests we should be braced for unemployment to rise from late second quarter onwards.

## Senior Loan Officer survey shows banks are nervous and weaker credit flow means job losses



Source: Macrobond, ING

## Fed is a close call, but lingering market worries would favour a 25bp move

This then brings us to the question of what the Fed will do on 22 March. Chair Powell's testimony clearly signaled that 50bp was firmly on the table and another strong jobs number will embolden the hawks on the committee. Next week we have CPI, retail sales and industrial production. We think the two activity reports will be soft, but see little reason for the core CPI to come in below the 0.4% MoM consensus forecast this month. This is still more than twice the rate needed (0.17% MoM) that would, over time, get us down to a 2% YoY inflation rate.

The macro newsflow and Powell's testimony on their own would therefore suggest 50bp on 22 March, but market angst regarding SVB and potentially others is unlikely to disappear. If that's the case a 25bp move would make more sense, especially given monetary policy operates with long lags and the cost and access to borrowing are going to increasingly weigh on the economy.

### 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>.