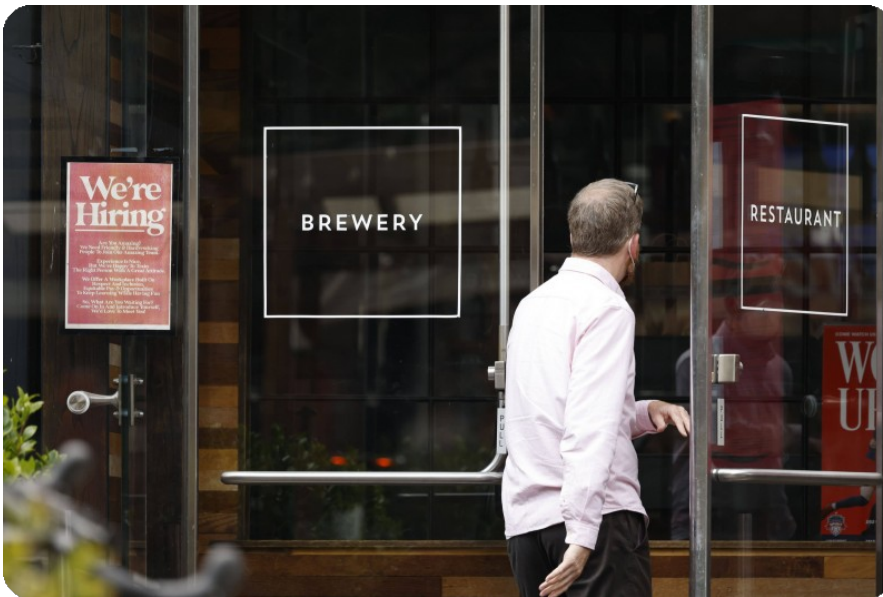


Article | 4 October 2024

UNITED STATES

Surging US jobs suggests the Fed needs to tread carefully

The US jobs report was incredibly strong on every front possible job creation, unemployment, wages and hours worked. Nonetheless, caution lingers given the lack of corroborating data. While the inflation backdrop is allowing the Fed to start moving monetary policy back to neutral, we think it will be in 25bp increments, not the 50bp we saw in September



The leisure sector continues to add jobs

254,000 Number of US jobs added in September

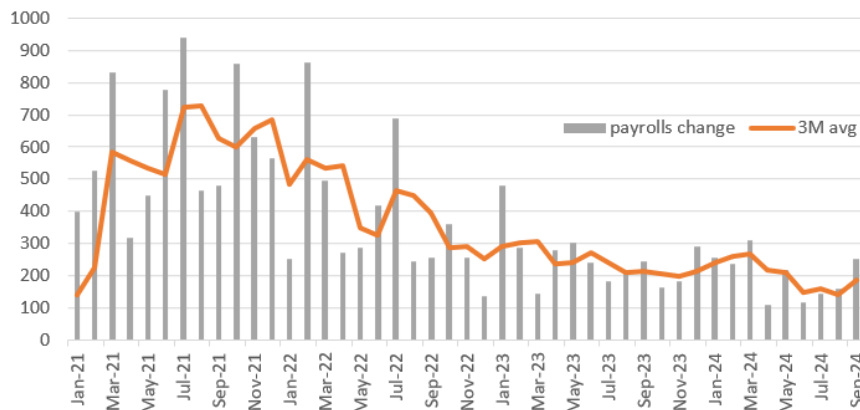
Better than expected

Job surge beats all expectations

The September jobs report is unambiguously strong. US non-farm payrolls rose 254k versus the 150k consensus and there were 72k of upward revisions to the past two months of data

(the range of expectations was 70k up to 220k). The unemployment rate fell to 4.1% from 4.2%, which only one person out of 71 predicted while wages rose 0.4% month-on-month with August's rate revised up 0.1pp to 0.5% MoM. On the face of this the Fed should be hiking rates with these sorts of figures, not cutting rates.

Monthly change in non-farm payrolls (000s)

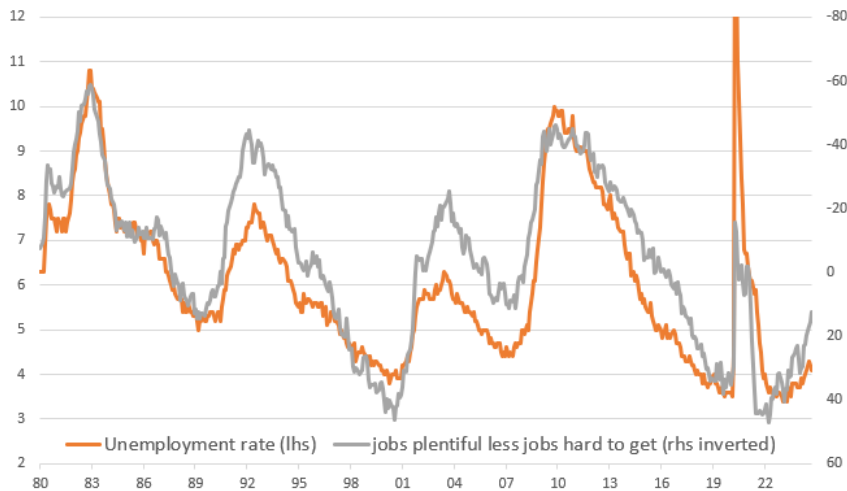


Source: Macrobond, ING

Data inconsistencies linger, but we don't see the Fed cutting rates by more than 25bp in November

The problem is that none of this tallies with any of the other data. ISM, NFIB and the Fed's own Beige Book are not suggesting that hiring is anywhere close to this while the sharp falls in the quits rate normally heralds a slowdown in wage growth, not an acceleration. Moreover, households themselves are telling survey compilers that the jobs market is weakening rapidly so I suspect there will be a degree of scepticism about this report. Either way though the Fed is not cutting rates 50bp in November. 25bp remains our call and the market has swung from pricing 33bp of cuts in November ahead of the release to 27bp in the immediate aftermath.

Unemployment rate versus Conference Board measure of jobs plentiful less jobs hard to get

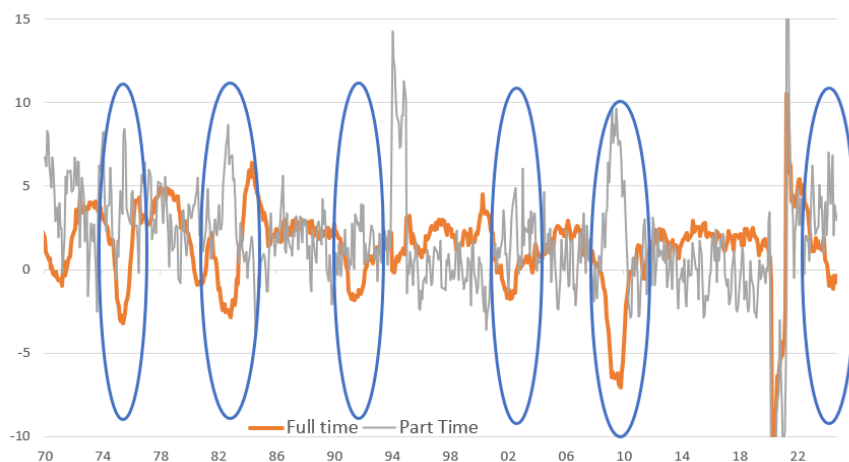


Source: Macrobond, ING

Full-time versus part-time employment doesn't look great

Within the details it is yet again down to the three sectors of leisure & hospitality (+78k), private education and healthcare (+81k) and government (+31k). So the majority of jobs are tending to be more orientated to part time, lower paid and less secure work. Note that full-time employment in the US has been negative year-on-year for eight consecutive months. Consequently, there continues to be question marks over the quality of the jobs that are being added. I'll just throw in this chart showing periods when full-time employment has fallen and part-time employment has risen – the blue circles. I'll leave you to look up what happened in the immediate aftermath of those periods...

YoY% change in employment – full-time versus part-time



Source: Macrobond, ING

Be wary of the consumer's reaction

Our base case remains that the US can achieve a soft landing on the assumption that a fundamentally sound economy responds to rate cuts and greater political clarity after the election. Nonetheless, we feel that the risks remain skewed towards weaker growth and lower Fed funds given the perception amongst households of a deteriorating jobs market (even if today's numbers don't confirm that), which may lead to consumers spending more cautiously. This is hugely important given consumer spending is around 70% of GDP. We will have to wait and see. For now we continue to expect 25bp rate cuts through to next summer with the Fed funds bottoming at around 3.25-3.5%, whereas the market has it dropping to just below 3%.

Author

James Knightley

Chief International Economist, US

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.

THINK economic and financial analysis

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 www.ing.com.