

US: Booming jobs market argues against rate cuts

The US jobs market continues to surge with the unemployment rate at the lowest level since December 1969. The market is pricing Fed rate cuts, but we really don't see the need



Source: Shutterstock

No signs of a slowdown here...

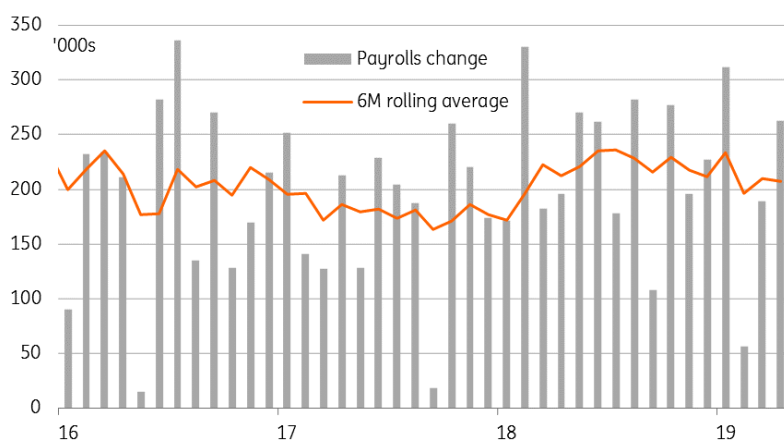
The US economy created 263,000 jobs in April, well ahead of the 190,000 consensus forecast and there were a net 16,000 upward revisions to the previous couple of months of data. This is an incredibly strong outcome and suggests US corporates aren't experiencing the downturn priced by the bond market.

We had expected a weaker outcome, but this was more due to the lack of available workers with the right skill sets than any dip in demand for labour. The National Federation for Independent Business reported yesterday that 38% of its members couldn't fill their vacancies due to a lack of workers, but clearly today's data shows that firms can hire.

Manufacturing employment rose 4,000, construction was up 33,000 while service sector employment rose 202,000 and government was up 27,000. The latter may be a prelude to a pick-up in hiring for the national census, although much bigger gains relating to this are expected in

coming months.

US monthly non-farm payrolls growth



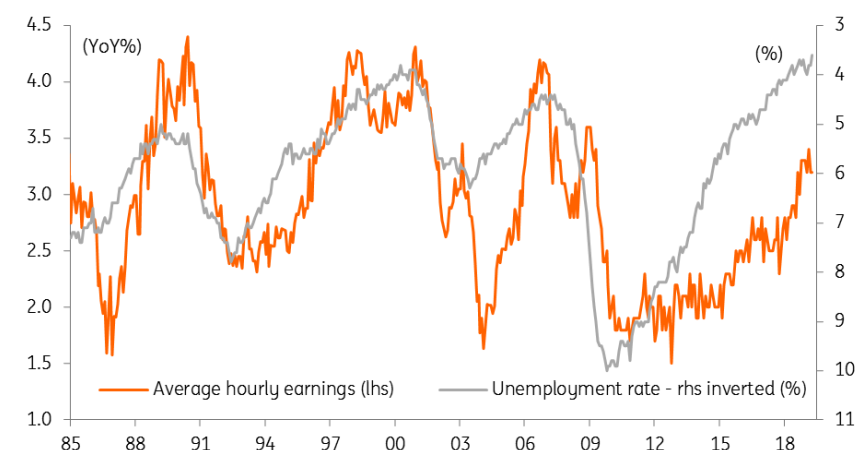
Source: Macrobond, ING

Unemployment hits new lows, wages responding

For those that love accuracy, the unemployment rate fell to 3.585% from 3.811%, which takes us to a new 50-year low and highlights how tough it must be for companies to hire workers with the skills their business need. The participation rate fell yet again and now stands at just 62.8% after 490,000 workers left the civilian labour force.

This demand-supply imbalance in the jobs market is boosting pay to some extent, but not by quite as much as we had hoped. Pay rose 0.2%MoM/3.2%YoY versus a consensus forecast of a 0.3%MoM gain. However, March's figure was revised up by a tenth of a percentage point to 0.2%MoM so on balance it is broadly in line. Given the competition for workers, we expect pay to continue grinding higher.

Wages following unemployment



Source: Macrobond, ING

Why cut rates?

With workers secure in the jobs and experiencing rising pay this should continue to support consumer sentiment and underpin household spending. Trade and inventories will swing from being a big net positive contributor to growth in 1Q19 to being a drag on GDP growth in coming quarters, but consumer spending can more than offset this. Assuming a US-China trade deal can be agreed and investment spending stays firm we continue to look for the US economy to expand at around 2.5% this year, suggesting little need for interest rate cuts from the Federal Reserve.

With wage growth picking up and firms increasingly using benefits packages to retain and incentivise staff we suspect that the market is underplaying the inflationary pressures coming from the labour market. The combination of decent growth, better financial conditions and a consistent grind higher in inflation means we are firmly in the camp that expects monetary policy to be left unchanged throughout 2019.

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.

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>.