

## US: Job gains continue, but it's a long road to full recovery

Employment continues to grow, but the pace of private sector gains is slowing. With a range of data pointing to a levelling off in activity since July it is likely that unemployment stays persistently high and that the US economy will not fully recoup all its lost output before mid-2022 unless there is a new large fiscal stimulus and good news on a vaccine



11.55m Net drop in employment vs Feb

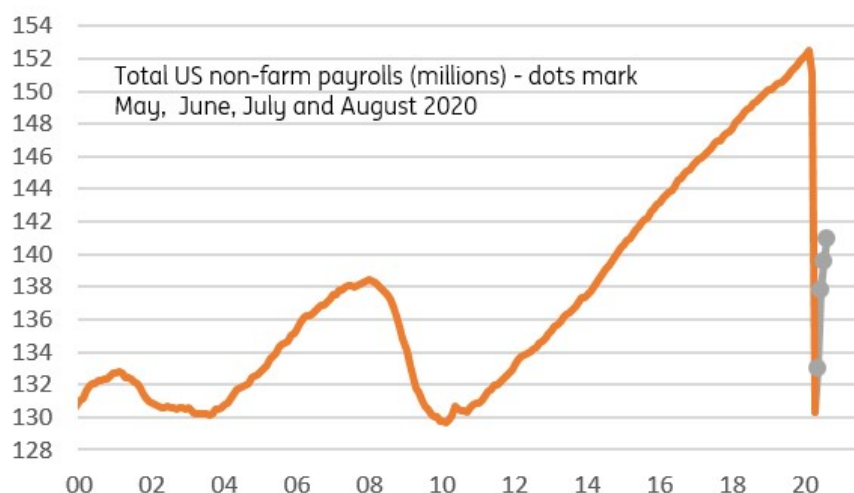
### Payrolls meets expectations

US non-farm payrolls rose 1.37mn in August, almost exactly in line with the 1.35mn consensus with the unemployment rate falling to 8.4% from 10.2% (consensus was 9.8%).

Despite the strong headline reading the details show that private sector employment gains were softer than the market had hoped at 1.027mn versus 1.3mn forecast with temporary government hiring for the 2020 Census making up the residual (Federal government employment rose 251k).

In the private sector, services saw most of the gains with leisure/hospitality up 174k, trade and transport rising 341k, retail up 249k and business services up 197k. Manufacturing (+29k) and construction (+16k) saw more muted gains.

## Level of US non-farm payrolls (millions)



Source: Macrobond, ING

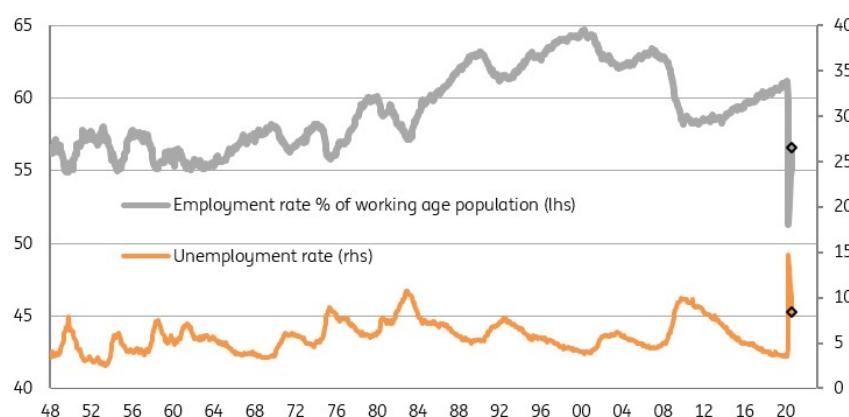
## But the labour market remains weak

“Officially” unemployment is now 13.55mn, but this likely understates the degree of joblessness. That’s because to be “officially” unemployed you must be actively looking for work and because you don’t need to be looking to claim unemployment benefits, many people choose not to. Yesterday’s jobless claims data showed 29.22 million people are claiming unemployment benefits under all schemes and while there is a debate over this figure too, the “true” situation is likely to be somewhere in the middle.

Consequently, it is probably better to look at employment as a percentage of working age population to give us the clearest picture of the US labour market – see chart below. It is at 56.6%, which is where we were back in the mid-1960s when female participation was far lower than it is today.

Wage growth is at 4.7% year-on-year, but this figure is distorted by the fact that most of the jobs lost since February have been concentrated in low paying sectors. This means that the dollar wage of those in work is going to be “on average” much higher in August 2020 than in August 2019. There is very little evidence of actual wage growth outside of sectors such as grocery and given the slack in the labour, market wage inflation pressures will remain muted for a considerable period of time.

## Employment and unemployment rates since 1948



Source: Macrobond, ING

## More challenges ahead

Phase one of the recovery certainly went better than we could have hoped as the economy re-opened and a combination of pent up demand and generous unemployment support programs fueled growth. However, the current environment of weak consumer confidence, employment still being 11.6mn less than February, the hit to incomes from the cut in unemployment payments and the absence of a broader fiscal support package means there are major challenges for the economy as it tries to recoup all its lost output.

High frequency daily data from payroll tracking firm Homebase (see chart below) suggests the pace of jobs gains has slowed sharply in recent weeks while the ISM employment indices both remain in contraction territory. This week's Federal Reserve Beige Book also warned that "some districts reported slowing jobs growth and increased hiring volatility, particularly in service industries with rising instances of furloughed workers being laid off permanently as demand remained soft".

How the back-to-school process proceeds will also be important for the next couple of months of jobs data. If people are unwilling to send children to in-person lessons or schools are not physically open then many parents may have to stay off work to provide childcare, thereby limiting potential job gains.

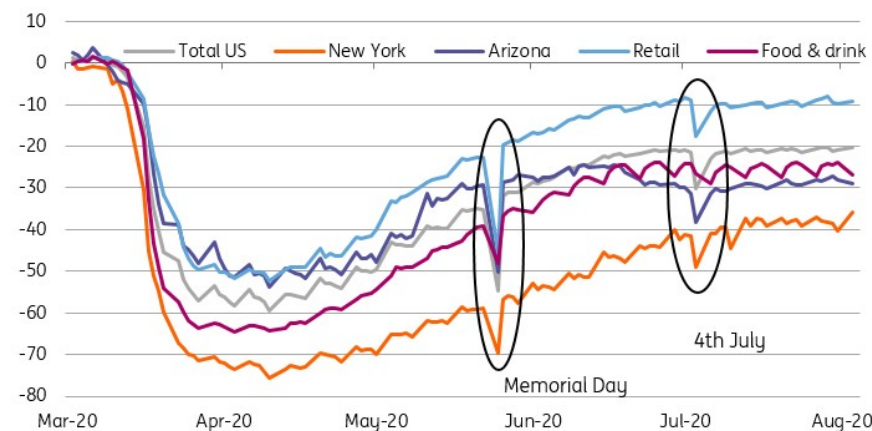
---

*We see a plateauing in the jobs market*

---

Consequently, we see a plateauing in the jobs market with the risk that faced with tough seasonal adjustment factors, we could see a negative payrolls number at some point, underlining the case for additional fiscal stimulus and the need for good news on a Covid vaccine. This levelling off at lower levels than in March can also be seen in credit and debit card transactions, hotel occupancy rates, TSA security check numbers and restaurant bookings, which only re-affirms our view that this recovery will not be V-shaped.

## Homebase data suggests job gains have plateaued in recent weeks (% deviation in total employment from January)



Source: Bloomberg, ING

### 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 [www.ing.com](http://www.ing.com).