

## What a good US jobs report will mean for markets

Employment growth in the States is softening, but this is more to do with a lack of workers with the right skills to fill vacancies rather than any meaningful downturn in demand. Given the positive implications for wages, we believe the risks are skewed towards more modest Fed policy loosening than the market expects



A Donald Trump supporter at a presidential rally in Michigan

# 170k

June non-farm payrolls growth

ING Forecast, 164k consensus

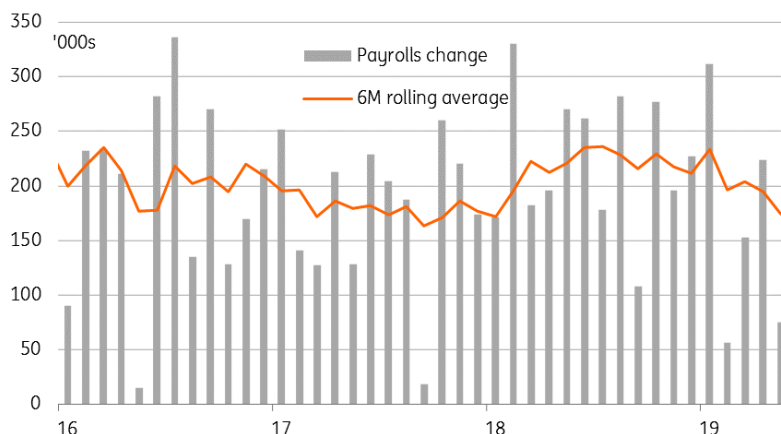
### Job growth capped by supply, not demand

The US jobs report is out on Friday and it's set to be a good one. That said, payrolls growth has undoubtedly slowed this year with the 6M moving average currently at a 17 month low of 174,500. The government shutdown probably played its part, restricting employment growth for both federal workers and government contractors, while more recently anxiousness over the US-

China trade tensions may also have tempered hiring plans to some extent. However, most labour market data releases continue to suggest demand for workers remains very firm.

For example, the ISM manufacturing employment index rose to 54.5 in June - a three month high with the index back above its 6M moving average. Then there is the National Federation of Independent Businesses survey which reported that 21% of members “plan to hire” new workers – a five-month high. So even with the negative headlines surrounding trade, US businesses still seem in a strong position with a clear appetite to find workers.

## Payrolls growth is slowing



Source: Macrobond, ING

Instead, the slowdown in hiring appears to be more due to the lack of suitable workers to fill those vacancies. The latest Federal Reserve Beige Book, published just ahead of the June FOMC meeting, suggested that “stronger employment growth continued to be constrained by tight labor markets, with Districts citing shortages of both high- and low-skill workers.” Meanwhile, the NFIB survey suggested 38% of firms could not fill the vacancies they currently have, primarily because there aren’t available workers with the right skill sets.

With the labour force participation rate running at just 62.8%, there is the lingering hope that some potential workers will re-enter the labour force, especially given the pick-up in wage growth. However, we’ve been looking for that for a considerable period, and there is little evidence to suggest it is happening. Therefore while we expect payrolls to rebound from the surprisingly weak 75,000 reading in May, we doubt it will be enough to drag the 6M average meaningfully higher. We look for payrolls growth of 170,000. The consensus is 164,000 within a range of expectations of 100,000 to 205,000.

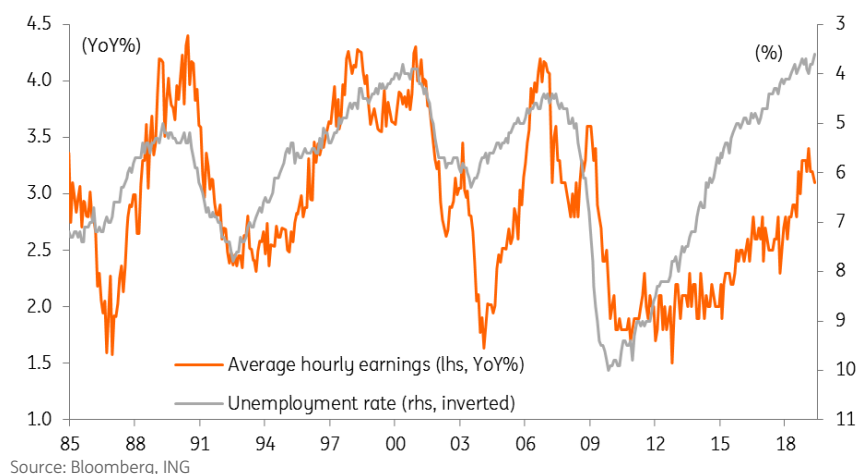
## Wages set to recover

Like payrolls growth, wages have disappointed a little this year, especially given surveys suggest that competition for workers continues to heat up. Monthly wage growth has been average a little over 0.2%MoM year to date, but we look for a month-on-month increase of 0.4% in June to reflect both the competition for workers, but also the technical point that there were only 20 working days in June versus 23 in May.

If you are receiving a monthly salary when it is converted into an average hourly wage rate it will

look substantially higher if there are fewer working days (and therefore fewer working hours) in the month. We saw an identical move in February (20 working days versus 23 working days in January) and average hourly earnings growth rose 0.4%MoM, the best monthly growth for the year so far.

## Pay has been slipping back



Add in the competition for labour, which is bidding up pay and we are more confident than usual in our above-consensus call for US wage growth. Note the commentary from the Federal Reserve’s June Beige book – “Competition for workers reportedly applied some wage pressures across a wide range of occupations and induced improvements in benefits to attract more workers and to improve retention of existing employees, according to several Districts.”

**3.3%**

Annual wage growth (YoY%)

ING forecast, 3.2% consensus

## Unemployment to stay at 50 year lows

The unemployment rate dropped to 3.6% in April and stayed there in May – the lowest level since December 1969. We expect it to remain there again this month but the balance of risks are more to the upside than the downside given slowing employment growth and the outside possibility that higher wage growth may attract some people back to the labour force.

The participation rate has fallen from 63.2% in February to 62.8% currently, which is difficult to explain fundamentally. It tends to be quite a choppy series so if we do see that move higher once again it would make a 3.7% unemployment rate look more likely. A higher unemployment rate, for this reason, would certainly not be a signal we should be concerned. If anything it would be a perfectly understandable development where employment growth is slowing due to a skills mismatch, with competition for workers driving up pay, which attracts people who had left the labour market (early retirement for example), back into the jobs market.

## Participation rate remains weak



Source: Bloomberg, ING

3.6%

Unemployment rate

ING forecast, 3.6% consensus

### What it could mean for the Federal Reserve

The uncertainty caused by global trade tensions is weighing on US sentiment and activity, but despite this major headwind to growth the jobs market remains robust. Indeed, outside of manufacturing the US economy is holding fairly up well with firms clearly still looking to recruit workers and while continuing to complain of skills shortages. This suggests we should expect pay growth to grind higher, which will boost real incomes and keep consumer confidence firm.

*The threat from trade will persist despite US-China trade talks resuming*

However, the threat from trade will persist despite US-China trade talks resuming. Indeed, we suspect there is a strong chance of them breaking down once again given the two sides remain a long way apart on key issues such as technological transfers, intellectual property rights and the trade dispute resolution mechanism. A further round of tariff hikes would contribute to more pronounced economic weakness and softer jobs figures later in the year and as such we completely understand the Federal Reserve's inclination to step in with early precautionary rate cuts to support the economy.

Last week Federal Reserve Chair Jerome Powell repeated his comment "an ounce of prevention is worth more than a pound of cure" so we look for them to go with a July rate cut of 25bp to be followed up with a 25bp move in September. The market is pricing in three

rate cuts this year with a further 25bp cut in early 2020. However, we believe a trade deal will eventually be signed between China and the US with a little bit of economic pain bringing the two sides together later this year, allowing President Trump to focus on his 2020 re-election bid.

## 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>.