

US jobs market confounds the sceptics with 528k surge

Another upside surprise on US jobs growth with employment back at record highs. The fall in gasoline prices is set to boost household spending power, prompting an expected rebound in 3Q GDP of 3%+. With next week's CPI report set to show core inflation rising above 6%, market momentum is swinging towards a third consecutive 75bp Federal Reserve rate hike



US jobs growth was strong once again in February

528,000 Number of jobs created in July

Job creation continues to exceed expectations

The US labour market continues to confound expectations with another very strong jobs print in July. This time non-farm payrolls rose 528k versus expectations of 250k while there were a net 28k of upward revisions to the previous two months of data. Unlike most activity data, which have typically disappointed over the past few of months, the US payrolls number has beaten the consensus forecast for the third time in a row. More significantly it also means that all the jobs lost

during the pandemic have finally been fully recovered with total payrolls at an all-time high of 152.54mn.

US non-farm payrolls (millions)



Source: Macrobond, ING

There was strength throughout with private payrolls up 471k and government up 57k. All sectors posted gains with education & health particularly strong (+122k), leisure and hospitality up 96k and business services up 89k. Even construction (+32k) and manufacturing (+30k) were robust despite recent softness in activity numbers.

It doesn't end there. The unemployment rate fell to 3.5% from 3.6% while average hourly earnings accelerated to 0.5%MoM/5.2%YoY (consensus 0.3/4.9). The struggle of finding suitable workers was again illustrated by a decline in the worker participation rate to 62.1% from 62.2.

Gasoline price plunge to lift 3Q activity

Given the softer trend in activity and the fact that the US is in technical recession – two consecutive quarters of negative growth – we doubt that this pace of employment growth can continue. Nonetheless, we have to acknowledge that the near-term economic story is looking pretty good with the substantial falls in gasoline prices likely leading to a 3Q rebound in activity.

Having peaked above \$5/gallon in June the national average price for gasoline is down at \$4.11 today with the recent declines in oil prices suggesting we could see gasoline dropping to \$3.80/gallon in the next ten days or so. This boost to household finances can lift both sentiment and spending and already appears to be translating into greater movement around retail and recreation. With inventories and trade also supporting activity we look for 3Q GDP to come in around 3% annualized.

A third 75bp hike is possible...

Meanwhile, next week's CPI report set to show core inflation rising back up to 6% and with employment growth set to continue, albeit not at half a million jobs a month, it is likely that market momentum will inevitably swing towards a third consecutive 75bp hike.

However, there is still a lot of data to come between now and the September 21st FOMC meeting so for now we are happy to stick with out 50bp September, 50bp November and 25bp December Fed hike call.

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