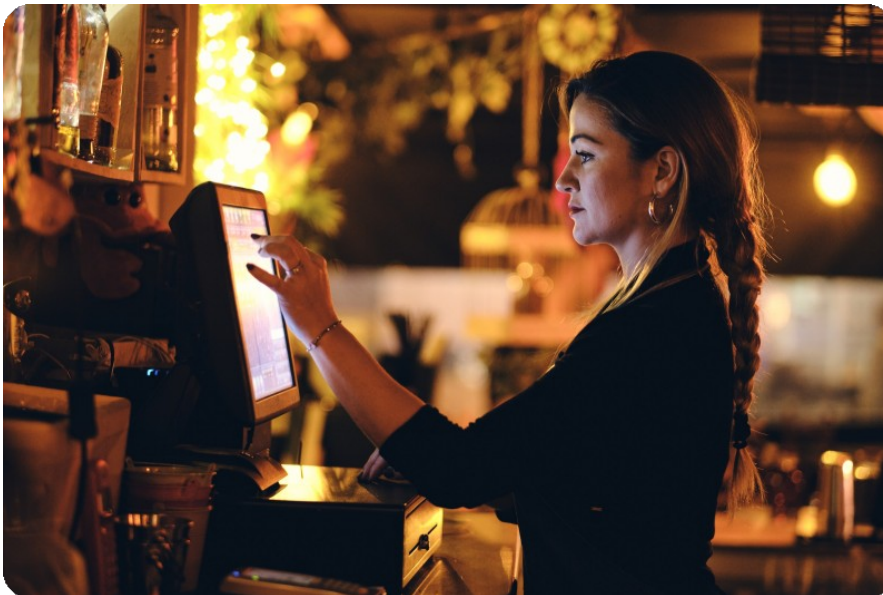


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UNITED STATES

US jobs market holds firm ahead of the tariff storm

The US economy added 177k jobs in April, but with business and consumer surveys suggesting tariffs and trade policy uncertainty are hurting sentiment, there is a strong likelihood that a cooling in economic activity translates into a weaker jobs market over the summer



The US added more jobs than expected in April, but that is set to slow on tariff and trade uncertainty

177,000

Jobs added in April

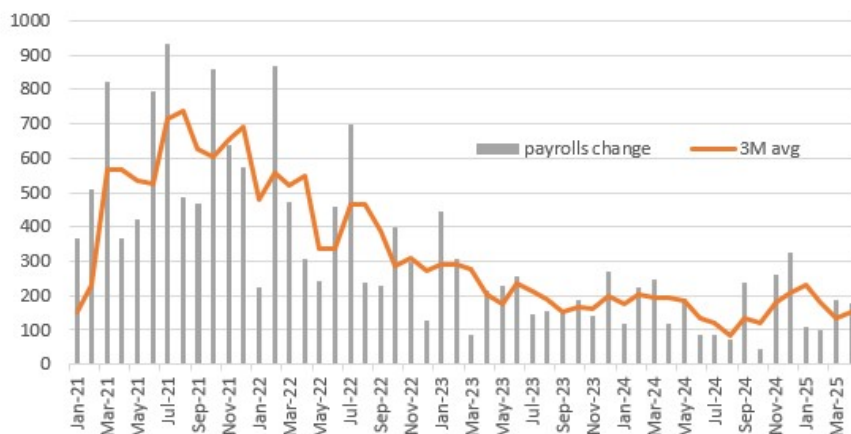
Better than expected

Solid jobs market but weaker wage growth

The US employment report shows that the economy added 177k jobs in April, above the 138k consensus, but there were 58k of downward revisions to the past two months, so on a net basis it is broadly in line with expectations. The unemployment rate held steady at 4.2%, but wages were a bit softer than anticipated at +0.2% month-on-month or 3.8% year-on-

year versus the 0.3/3.9% consensus. Hiring and firing both remain subdued so we remain somewhat range-bound for now in the jobs market, but the risk is for weaker numbers in May and June as the tariff reaction from business materialises.

Change in non-farm payrolls (000)



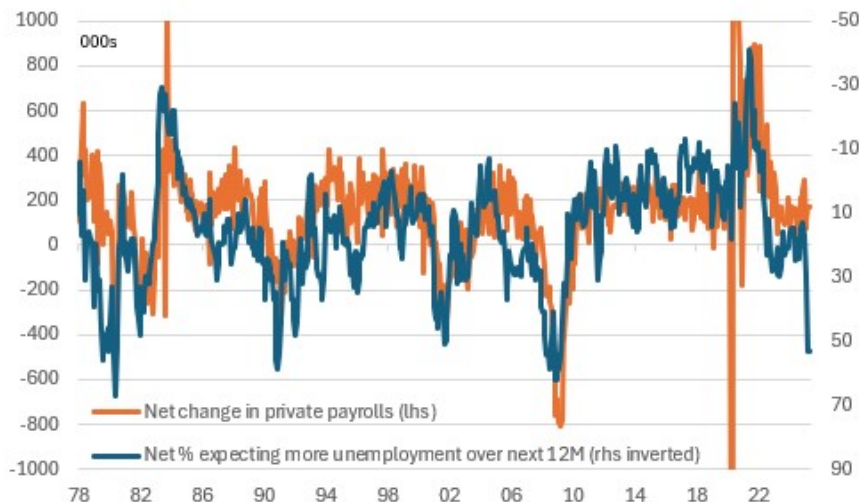
Source: Macrobond, ING

The details show that private education and healthcare services continue to be the main source of jobs, adding 70k, while leisure and hospitality was also firm at +24k. Federal government fell 9k, but this was more than offset by an increase in state and local government. Trade and transport was also firm at +32k, presumably as jobs were added to deal with the surge in imports in the first quarter, but this sector looks vulnerable to job losses in the months ahead based on the news flow about reduced shipping activity since the start of April.

Job market challenges will intensify

One of the key concerns about the outlook for jobs is that three sectors have contributed to nearly 90% of all the jobs added in the past two years: government, leisure & hospitality, and private education and healthcare services. Government employment is vulnerable to Federal spending cuts, while a cooling economy could see discretionary spending – such as eating out and travel – being trimmed early on, meaning leisure & hospitality could be impacted early.

University of Michigan sentiment unemployment expectations versus the monthly change in private payrolls



Source: Macrobond, ING

Perhaps of most concern, consumer sentiment surveys are showing major angst over the prospect for the jobs market. The University of Michigan's measure of unemployment expectations has spiked, and as the chart above shows, this has a strong lead quality of net changes in private sector employment. People feel and notice shifts before they show up in the official economic data, and right now, this points to the potential for outright falls in employment later in the year. This is also the message from the ISM employment series, which is in contraction territory for both manufacturing and the services sector. When the Federal Reserve does start to become comfortable with cutting interest rates, we suspect it will move swiftly and aggressively.

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