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UNITED STATES

Decent US jobs market vulnerable to trade uncertainty

A respectable jobs market in May with firm employment growth and stable unemployment, but the risks are skewed toward more weakness in coming months as trade uncertainty and concerns for consumer spending lead firms to become much more cautious on hiring



One of Manhattan's main shopping streets

139K

Number of jobs added in May

US nonfarm payrolls

Respectable jobs data for May

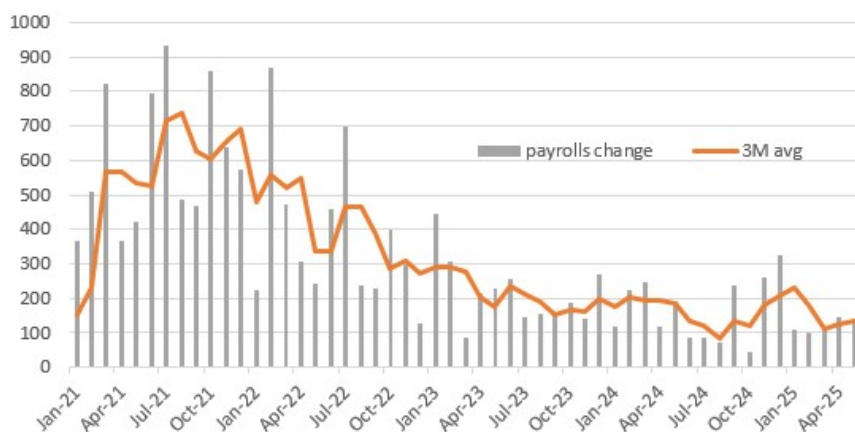
The May US jobs report shows nonfarm payrolls rising 139k versus the 126k consensus and April's print of 147k. April was initially reported as 177k, and together with adjustments to March's numbers, we get a net 95k of downward revisions to the previous two months of jobs

data.

The unemployment rate held at 4.2% while wage growth was a touch stronger at 0.4% MoM/3.9% YoY versus 0.2/3.9% in April. Average weekly hours stayed at 34.3.

On balance, a pretty decent outcome given the weakness seen in the employment components of key business surveys, but the risks are increasingly skewed towards cooler jobs growth in the coming months.

Monthly change in nonfarm payrolls (000s)



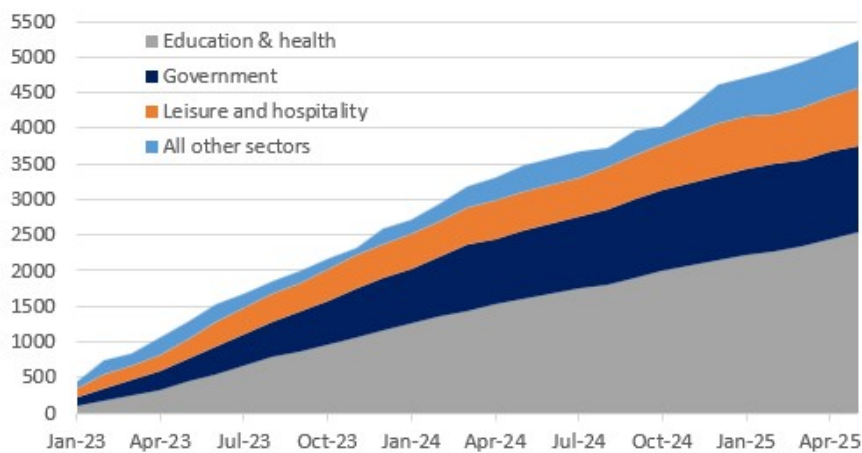
Source: Macrobond, ING

Job growth is concentrated in two sectors

The details show that manufacturing employment fell 8k, retail dropped 7k, while temporary help fell 20k, with federal government employment falling 22k - the fourth consecutive monthly decline in this component. However, the usual suspects that have been providing the job gains over the past couple of years came through once again, with private education and healthcare services up 87k and leisure and hospitality up 48k.

After the revisions, we see that government, leisure & hospitality, and private education and healthcare services account for 87% of all the jobs the US has created since January 2023. Traditional sectors that typically signify a strong US economy have not been adding jobs in any meaningful way - think tech, business services, transport & logistics, construction, financial services etc. The chart below shows the cumulative increase in jobs contributed by sector.

Cumulative jobs gains since January 2023 (000s)



Source: Macrobond, ING

Risks of weaker jobs figures ahead

Our suspicion is that government, private education, healthcare services, and leisure and hospitality will become much less supportive through the year and potentially even act as a drag on job creation in 4Q. Private healthcare jobs are vulnerable to President Trump's desire for reduced spending on health programmes and if consumers do start to become more cautious in their spending, reflecting the steep falls in sentiment, then discretionary spending on eating and drinking in bars and restaurants and other entertainment tends to be the first thing that gets cut. We also expect to see Federal government workers shrinking as a legacy of Elon Musk's efforts to get a grip on government spending.

Note too the Federal Reserve's own Beige Book's assessment of the jobs market from earlier this week, which stated that "*comments about uncertainty delaying hiring were widespread. All Districts described lower labor demand, citing declining hours worked and overtime, hiring pauses, and staff reduction plans*". The lack of clarity on the US global trading environment and concerns over the resilience of consumer demand are making businesses act more cautiously, and we have to be braced for softer jobs numbers ahead.

Inflation, though, remains a key concern with the Beige Book warning of "*as strong, significant, or substantial*" cost and price increases. Until there is some clarity on which way the economy is heading the Fed will remain on hold with little prospect of a rate change before the fourth quarter.

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