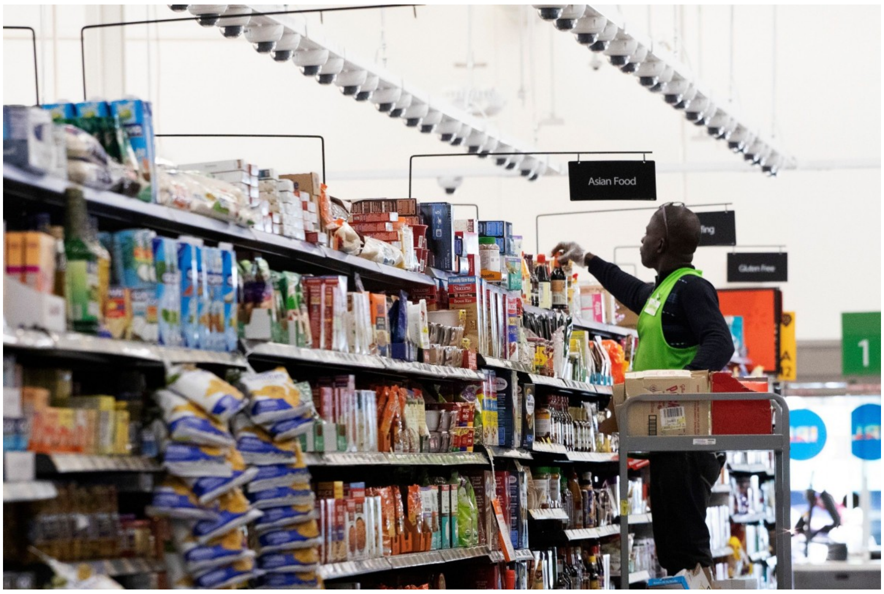
US: Jobs report adds to Trump’s woes

The market importance of today’s jobs report has been diminished by the news surrounding President Trump, but the information remains highly significant. While employment continues to grow, the pace of gains is slowing while government jobs are being lost. It underlines the argument for additional fiscal support



661,000 Rise in US payrolls in September

Payrolls overshadowed by Trump's Covid test

The final jobs report ahead of the 3 November presidential election has been overshadowed by the news that President Donald Trump has tested positive for Covid-19.

Betting odds signal a diminished chance he will win re-election and a much higher probability of a Democrat clean sweep. Markets are of the same view with steep equity future falls presumably on fears that such an election outcome will heighten the chances of more taxes and regulation that will hurt corporate profitability.

However, we would argue that this scenario would offer a greater chance of a swift agreement on a meaningful fiscal stimulus early next year that could boost the outlook for US growth. This would keep the fiscal deficit wider, which could add to upside pressure on Treasury yields over the medium term. We also would doubt that regulations and taxes would be hiked immediately given the challenge this would pose for corporate America at a time of immense Covid-19 stress – which would be detrimental for jobs.

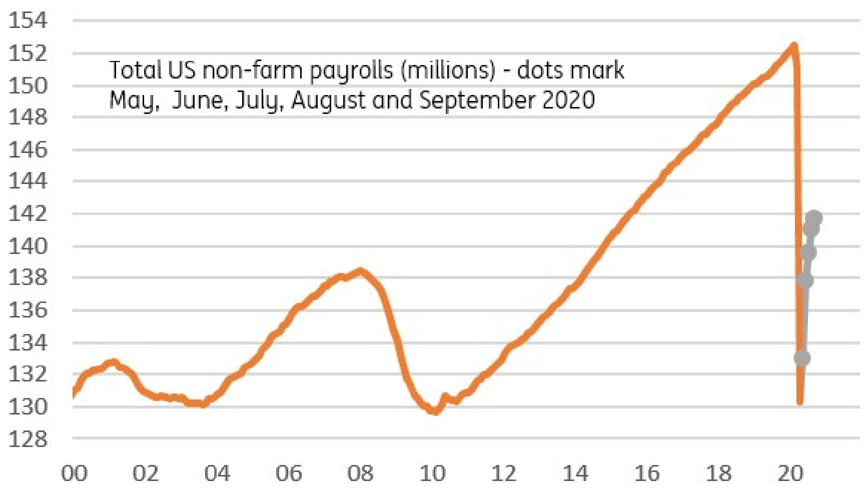
We see this more as a 2022/23 story, so in an environment of stronger fiscal stimulus fueled growth over the next couple of years, this may not necessarily be such a negative environment for risk assets over the medium term.

Jobs disappoint with momentum fading

US non-farm payrolls rose 661k in September versus the 859k consensus and while there has been a net upward revision of 145k to the previous two months of data, it doesn't change the narrative of stalling momentum in the jobs market.

May saw a 2.7mn gain, June a 4.8mn gain, July a 1.8mn gain and August a 1.5mn gain, but employment overall remains 10.7mn below the level of February so there is a long way to go still on the recovery path.

Non-farm payrolls (millions)



Source: www.tracktherecovery.org

A long, long way from full employment

The details show private payrolls up 877k (consensus 850k) with goods up 93k and services up 784k. Government employment fell 216k, highlighting the strains on state and local government due to the pandemic having hurt tax revenues and contributing to a significant increase in expenditure. Given most have to balance their books this is why we are hearing many calls for more federal financial support. Federal government employment fell 34k on some of the temporary census hiring being laid off.

Government employment fell 216k, highlighting the strains on state and local government due to the pandemic

The unemployment rate fell further to 7.9% from 8.4%, but much of this was due to a fall in the participation rate (to 61.4% from 61.7%) - another bad sign as it typically indicates people are being discouraged from looking for work. The participation rate was up at 63.4% in February.

“Officially” unemployment is now 12.58mn, but this only reflects people who are actively looking for work. Many people who were employed in sectors that have been heavily impacted by the pandemic, such as leisure and hospitality, are not actively looking for work as there isn’t much out there, yet they can continue to claim benefits under the current rules. The total number of people claiming unemployment benefits was 26.5mn as of 12 September according to the Department of Labour data.

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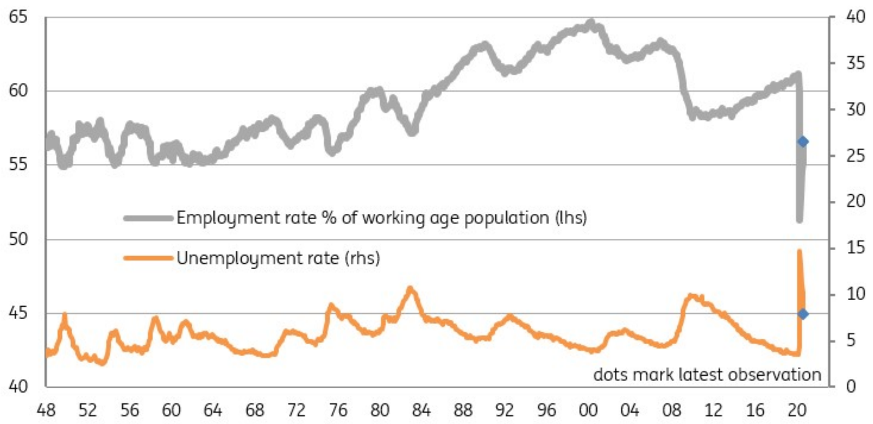
Consequently, employment as a percentage of the working-age population gives us a clearer picture of the US labour market – see chart below. It is at 56.6%, which is where we were back in the mid-1960s when female participation was far lower than it ordinarily is today.

Employment and unemployment rates



Source: Macrobond, ING

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 September 2020 than in September

2019. There is very little evidence of actual wage growth outside of sectors such as grocery and we expect this to remain the case given the slack in the jobs market.

Job gains set to continue slowing

The economy has bounced strongly since the re-opening as a combination of pent up demand and generous unemployment support programs fueled growth. In fact, based on the latest data flow we should be expecting 3Q GDP growth of the order of 35% annualised.

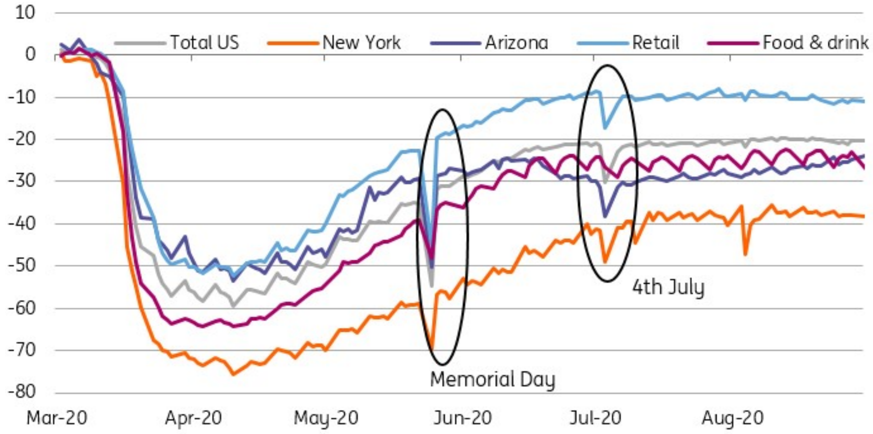
> *We are currently forecasting 4Q GDP growth of 4.5% annualised, which would leave 2020 output around 2.2 percentage points below 4Q19 levels*

However, there is a long way to go before all the output lost through the first half of the year is fully recovered, underlined by the fact that employment is still 10.7mn lower than February. Covid-19 will continue to present challenges for the economy for many more months, while election tensions could also weigh on sentiment.

High-frequency daily data from payroll tracking firm Homebase already suggest the improvements in the labour market are plateauing while yesterday's ISM manufacturing employment index remained in contraction territory. Consequently, further job gains are likely to be tougher to come by, especially if the rising number of Covid-19 cases leads to renewed containment measures, as we are seeing in Europe right now.

We are currently forecasting 4Q GDP growth of 4.5% annualised, which would leave 2020 output around 2.2 percentage points below 4Q19 levels.

Homebase payrolls tracking suggest a plateau (% deviation in employment from January)



Source: Homebase

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