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US jobs: workers finally feeling it...

Payrolls growth is slowing but wages are picking up, which underlines the difficult decision facing the Federal Reserve. The risks from a deteriorating international backdrop and a manufacturing recession mean we still look for September and December rate cuts

Source: Shutterstock

130,000 Increase in US payrolls in August

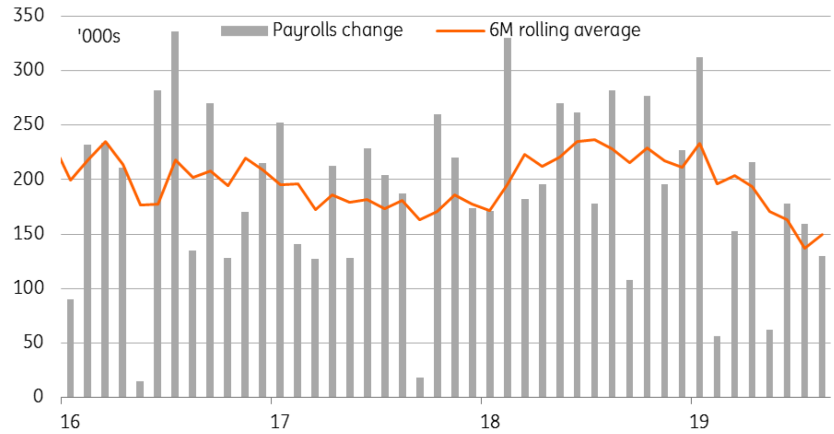
versus 160,000 consensus

Payrolls miss expectations.... and it could have been worse

US payrolls rose 130,000 in August – below the 160,000 consensus and there was a net downward revision of 20,000 to the previous two months of data. Private payrolls rose just 96,000, which is a three-month low and is clearly disappointing given other evidence such as from the National Federation of Independent Businesses, ADP and ISM non-manufacturing surveys.

The number could have been worse were it not for the 25,000 government workers hired to conduct the upcoming census. Furthermore, the ISM manufacturing employment index was at levels consistent with a 10,000 drop in manufacturing employment, though we got a 3000 rise instead. As can be seen below, payrolls growth is trending lower. It may in part be due to the difficulty in finding workers with the right skill sets given unemployment remains just 3.7%. However, given creeping caution about the international backdrop and uncertainty on trade, firms may be increasingly cautious about hiring too.

Payrolls growth versus the six-month trend



Source: Macrobond, ING

3.2% Annual wage growth

versus 3.0%YoY consensus

… but wages are accelerating

On the clear positive side of the equation, we have got another really good wage number of +0.4% month-on-month following three consecutive 0.3% readings. As such, the three-month annualised rate is up to 4.2% and you have to go all the way back before the financial crisis to have had that. The Fed's Beige Book and the NFIB survey have both been highlighting the difficulty companies have been having in recruiting staff with evidence suggesting that the competition for workers is bidding pay higher, but it is only very recently that we have been seeing this materialise in the actual jobs report. The unfortunate thing is if companies are becoming more cautious on the economic outlook then hiring will likely slow further and we may see these wage gains start to peter out.

Implications for the Federal Reserve

Today's report, like yesterday's ISM non-manufacturing index, underlines the point that domestically-focused parts of the US economy continue to perform well while the international and manufacturing related sectors are struggling. We are likely to see more of this next week with August retail sales underpinned by rising incomes and a sense of job security seen from today's report.

Given this economic backdrop, Federal Reserve officials are understandably reluctant to bow to

President Trump's demands for aggressive rate cuts and are seemingly pushing back against market expectations of upwards of 100 basis points of easing priced in for the next 12 months. The outcome of US-China trade discussions, the next round of which is in October, remains critical to the outlook for the economic and monetary policy. Should we get a positive conclusion, this could remove a dark cloud hanging over the global economy, but should the talks fail, the gloom in manufacturing may increasingly spread through the rest of the economy. For now, we continue to look for 25bp Federal Reserve rate cuts at both the 18 September and 11 December FOMC meetings.

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