

## US JOLTS data confirms job weakness is down to supply

With job openings back above 11 million there is clearly no weakness in demand for workers. Instead, the reluctance of potential staff to return to the workforce is holding back growth, with the competition to recruit set to keep labour market inflation pressures bubbling



### Job vacancies back above 11 million

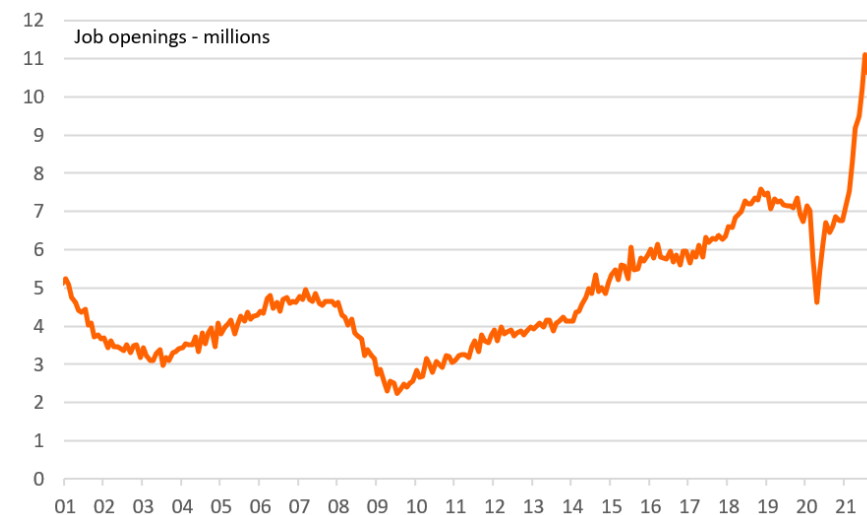
Last Friday's November US jobs number was disappointing, with the 210,000 outcome being less than half of what was expected. This means that employment is still 3.9 million below its pre-pandemic peak despite the economy being 1.4% larger.

Our take was that this was yet another example of supply constraints – the disappearance of millions of potential workers – rather than any weakness in demand. After all, just a few hours earlier the National Federation of Independent Businesses reported that a net +48% of small businesses have job openings they have been unable to fill.

This assessment has received further backing from today's Job Opening and Labour Turnover Statistics (JOLTS data). It showed the number of vacancies rising to 11m – a multiple of 50 times the number of jobs created in November! Firms are desperate to recruit and are willing to pay

more for staff, with the December Federal Reserve Beige Book stating “hiring struggles and elevated turnover rates led businesses to raise wages and offer other incentives, such as bonuses and more flexible working arrangements”.

## US job openings (millions)

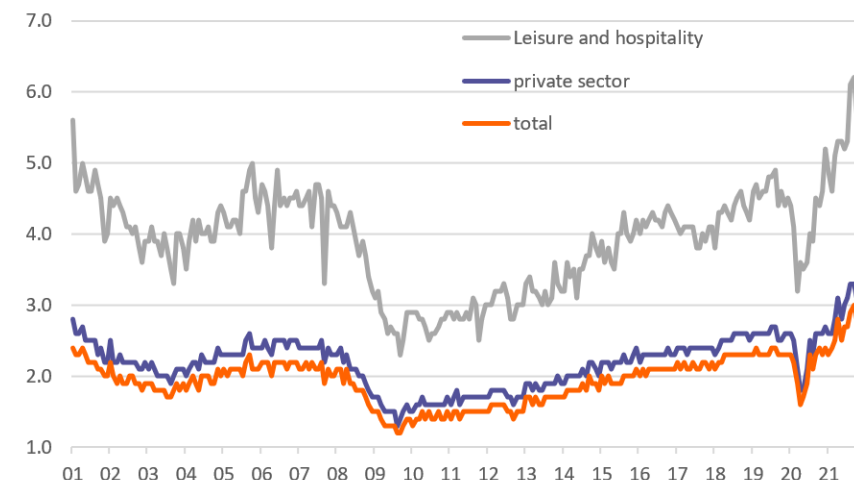


Source: Macrobond, ING

## But quit rate drops back. For now...

The surprise was the decline in the number of people quitting their job from a record 4.36m in September to 4.157m in October – the first dip since May. This meant that the quit rate – the proportion of workers quitting their job – declined to 2.8% from 3%. We see this as a temporary response to the concern about the Delta Covid spike with consumer caution extending to wanting to keep the security of their current job. We expect to see the quit rate moving higher again in coming months, which would not only indicate that firms are paying up to recruit new workers, but they are also having to consider raising worker compensation to retain the staff they currently have.

## Quit rate - proportion of workers quitting their job to go elsewhere (%)



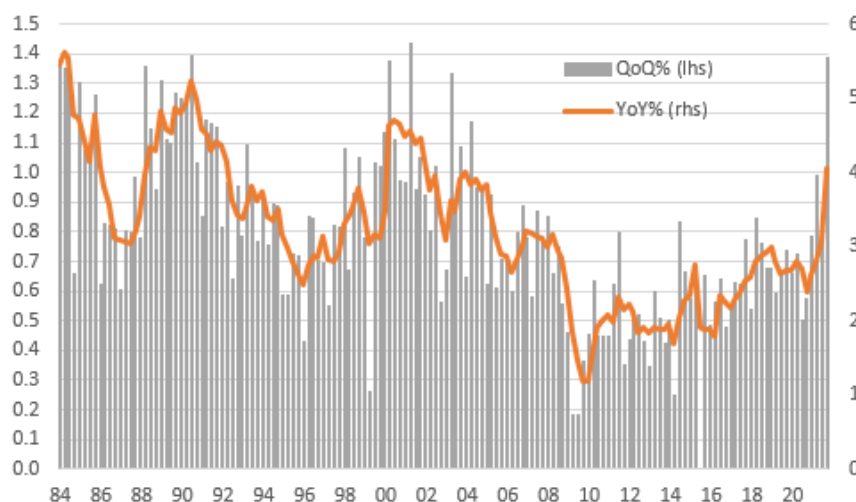
Source: Macrobond, ING

## Labour costs are accelerating

This assessment is also reflected in last Thursday’s NFIB survey which showed a net 44% of companies raised worker compensation over the past three months, with a net +32% expecting to raise compensation over the next three months – both are record highs for a survey that started in the mid 1970s. The Conference Board has subsequently announced that its Salary Increase Budget Survey shows 2022 salary increase budgets are estimated at 3.9%, which is the highest since 2008.

Barring a sudden return of millions of potential workers, this paints a picture that inflation pressures are broadening out and are likely to last longer. The employment cost index was one of former Fed Chair Alan Greenspan’s favourite economic indicators and it is increasingly coming back into vogue. It highlights the potential inflation threat coming from the labour market by including broader costs than wages alone, such as health benefits and pension costs.

## Employment Cost index



Source: Macrobond, ING

## Fed's hawkish shift continues

The Federal Reserve is now acknowledging this by Jerome Powell dropping the “transitory” description of inflation and clearly signalling that QE tapering will be accelerated at next week’s FOMC meeting and concluded in March. Officials have also been hinting at the prospect of having two 25bp rate hikes in their updated “dot plot” forecasts.

[In our 2022 Economic Outlook published last week](#), we suggested that were it not for the emergence of the Omicron variant we would have shifted from a two-rate hike view to a three-rate hike view for 2022. So far, the evidence suggests that Omicron won’t derail the global recovery story, but there is still some uncertainty. Nonetheless, that three hike call looks increasingly likely.

### Author

#### James Knightley

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central

Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.