

Article | 5 July 2019

US June jobs boom

A really encouraging jobs report that suggests the broad economy is shrugging off the US-China trade uncertainty. While the Federal Reserve is gearing up for precautionary interest rate cuts, we think the market is expecting too much



Source: Shutterstock

224k

Number of US jobs added in June

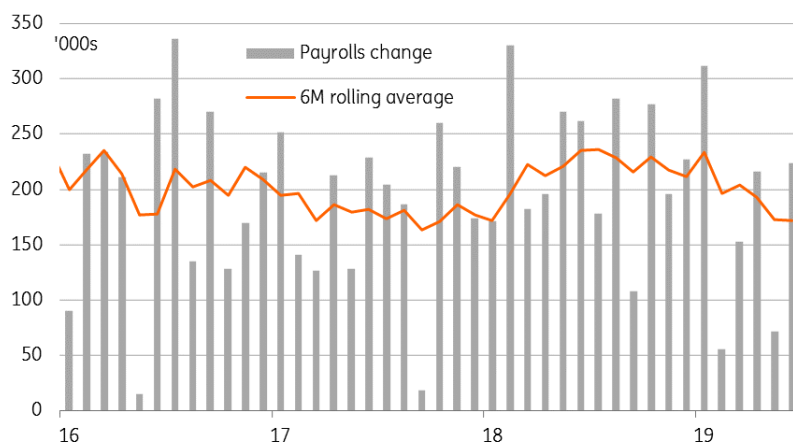
(Consensus was 160k)

Labour demand remains strong

It is a really strong US payrolls figure for June with 224,000 jobs created versus the 160,000 consensus. In fact, 224,000 is higher than all of the 75 economist estimates provided to Bloomberg! The previous two months of data saw a net downward revision of 11,000, but nothing can take away from the fact this is a surprisingly strong outcome.

Manufacturing payrolls rose 17,000 despite the struggles in the sector relating to an inventory overhang and uncertainty on the trade front. Private payrolls in total rose 191,000 versus the 150,000 expected. Service sector employment rose 154,000 led by business services and education & health, with government employment up 33,000.

Payrolls growth is resilient



Source: Bloomberg, ING

But wages and unemployment miss expectations

The unemployment rate moved up to 3.7% from 3.6% (it went to 3.67% from 3.62% for those who are sticklers for accuracy), but this reflects a rise in the participation rate – disaffected former workers being attracted back into the labour force, which should be seen as an encouraging story.

There was some softness on the wage front though. Average hourly earnings rose just 0.2% month-on-month versus 0.3% expected and our own forecast of 0.4%. Annual wage growth remains at 3.1%, which is a little disappointing given the tightness of the jobs market. However, it is well ahead of all the key inflation measures so real household disposable income growth is in great shape, which bodes well for consumer spending in the months ahead.

Payrolls growth will slow, wages can catch up

Taking it all together it is an encouraging report that suggests the broad economy is currently shrugging off the US-China trade uncertainty. We do expect employment growth to slow, but this will be more down to a lack of workers with the right skills to fill vacancies rather than any meaningful downturn in demand – remember the US is in its longest expansion period since 1854 and unemployment remains close to a 50-year low so the pool from which to find new workers is pretty small. However, there should be positive implications for wages as firms seek to recruit and retain staff. The resilience of the US jobs market is a key reason why we believe risks are skewed towards more modest Fed policy loosening relative to market expectations.

What it means for the Federal Reserve

Federal Reserve Chair Jerome Powell testifies to Congress next week and looks set to validate market expectations of precautionary interest rate cuts to head off the threat of a downturn.

He may repeat yet again his view that “an ounce of prevention is worth more than a pound of cure”. We look for the Fed to go with a July interest rate cut of 25 basis points followed by a 25bp move in September.

The market is looking for more - pricing in three rate cuts this year with a further 25bp cut in early 2020. However, President Trump will be well aware that pushing too hard for too long on trade risks a weaker economy and plunging asset markets, which would undoubtedly hurt his re-election chances. As such, we would expect him to strike a deal around the turn of the year, claiming the wave of market euphoria a trade deal would generate, coupled with an environment of lower interest rates, as a personal victory that supports his case for the presidency.

Author

James Knightley

Chief International Economist, US

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 www.ing.com.