

US: Shock January jobs reports confounds the doubters

The Omicron wave has depressed economic activity and this was meant to translate into weak hiring. It hasn't. 467k jobs created and massive upward revisions suggests a fundamentally very strong economy. With companies desperate to hire and the biggest issue being the lack of suitable staff, wages are rising sharply and the Fed will respond



Source: Shutterstock

467,000 The number of jobs created in January

Jobs surge despite Omicron headwinds

Well, that was a turn up for the books! Non-farm payrolls rising 467k versus the 125k consensus with a net 709k upward revisions to the past couple of months. Completely out of line with belief

that we could see a drop following the ADP, Manpower and Homebase surveys and the increase in initial jobless claims. The narrative was that the Omicron wave was depressing activity and hiring while the Census Bureau's estimate that 8.8mn worker absences due to Covid would compound the risks to the downside.

It is what it is, but there will be scepticism – the BLS provide no explanation for why it is so strong. For example, the 151k increase in leisure and hospitality is hard to fathom given restaurant dining is down more than 20% on “normal” based on Opentable data. Only mining & logging (-4k) and motor vehicle and parts (-4k) saw falls. Instead, retail jumped 61k, transportation and warehousing was up 54k and professional business surveys increased by 86k.

US payroll levels (mn)



Source: Macrobond, ING

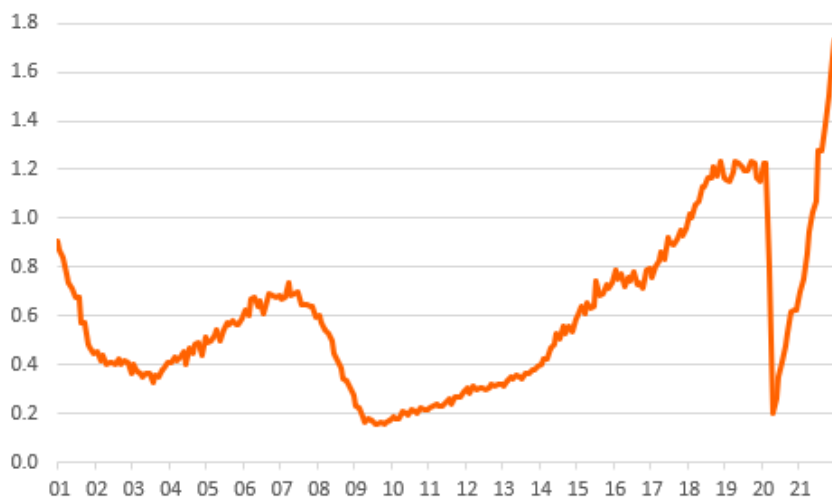
The rest of the report is strong with labour participation rate rising three tenths of a percentage point to 62.2% (although still well down on the typical 63% figure reported pre-pandemic) and average hourly earnings rising 0.7% month-on-month to take the annual pay rate increase to 5.7% year-on-year. So strong activity, strong inflation pressures and this is when Omicron is holding back the economy!

The unemployment rate rose to 4%, but this reflects the jump in new entrants to the labour market given the household survey used to calculate it (separate to the establishment survey that gives us the payrolls number) showed employment rising 1.2mn.

Record vacancies suggest worker demand will continue outpacing supply

So where do we go from here? Well, we wouldn't be surprised to see revisions lower in time, but the outlook remains very positive. In December there were 1.7 vacancies for every unemployed person in America, an all-time high as the chart below shows. This suggests the demand for workers is strong and as Covid cases and Covid caution subsides we expect employment growth to be even stronger than what we saw today – remember the first chart shows there are still 2.875mn fewer people in work than before the pandemic struck yet the economy is actually 3.1% larger.

Ratio of job vacancies to unemployed has never been higher

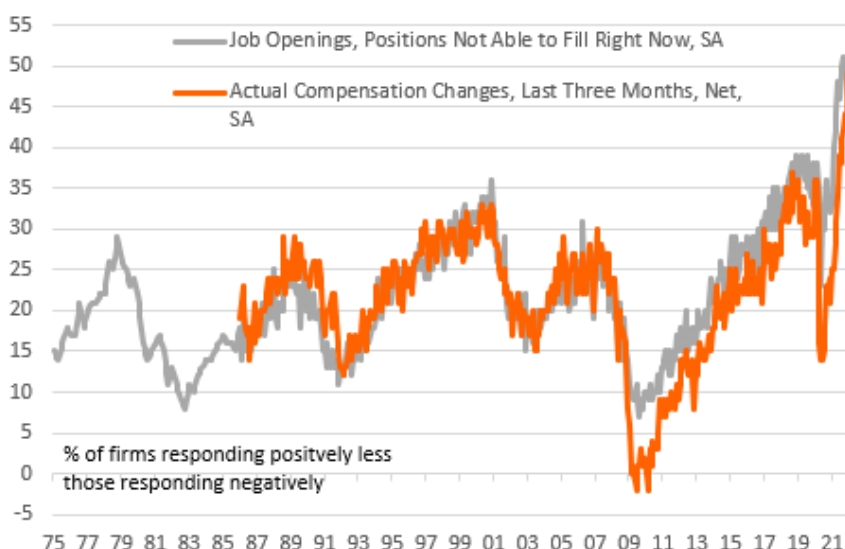


Source: Macrobond, ING

Wage pressures continue to build

There will still be labour market constraints though with the participation rate remaining stubbornly low (not withstanding today's improvement) and trying to fix this should be a priority. In the near term it means upward pressure on wages as companies desperate to hire pay more to attract workers while elevated quit rates mean they are also incentivised to pay more to existing staff to retain the ones they have. This was highlighted by the National Federation of Independent businesses labour report from yesterday which showed a net 47% of companies had vacancies they couldn't fill and a net 50% raised worker compensation in the past 3 months.

NFIB surveys shows companies can't find enough workers and are paying more to attract and retain employees



Source: Macrobond, ING

More ammunition for the Fed hawks to push hard

Whether higher pay is enough to attract people back to the workforce only time will tell. Nonetheless, the narrative of intensifying labour market inflation pressures and strong employment growth when Omicron is supposedly depressing activity only makes it more likely that the Fed will embark on an aggressive series of interest rate increases. We are doubtful on the idea of a 50bp hike in March as a signal of intent to get inflation under control, given comments from officials, but fully expect five 25bp hikes this year, starting in March.

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.