US: What to expect from the December jobs report

The November report showed job creation well ahead of expectations, but slower growth is likely in December. Moreover, labour market slack is greater than implied by the unemployment alone, meaning wage growth will remain subdued. The net result implies little upside threat for interest rates

150,000

ING's forecast for December payrolls growth

(versus 160,000 consensus)

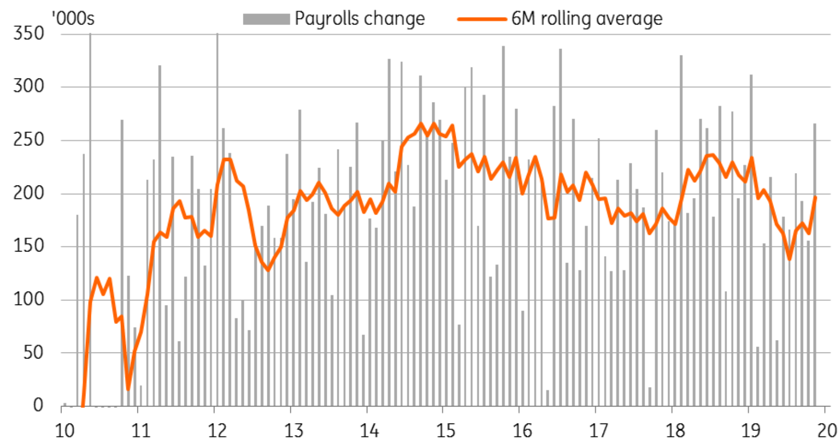
Jobs growth

After a remarkably strong November labour report, we expect to see a more muted yet still respectable set of jobs numbers for December. The November figure (266,000 with 41,000 upward revisions to the previous two months) was boosted by the return of formerly striking GM employees to the working population. It lifted the headline figure by around 46,000 directly with a further uplift from GM component suppliers who had put staff on temporary leave due to a lack of demand during the strike. Nonetheless, this was still well ahead of the consensus forecast of 180,000 and so helped cement the market view that there would be little need for the Federal Reserve to loosen monetary policy further after the three rate cuts seen in 2H19.

Since that report we have seen progress made on the phase 1 trade deal between the US and China with signing set to take place on January 15, but this is unlikely to have a major impact on this week's jobs figures. Instead, we are a little more cautious than the general market view with the latest ISM manufacturing report (employment component dropping to the lowest level since January 2016) highlighting the ongoing problems facing the sector, which is likely to result in net manufacturing job losses this month. We also note that the employment component of last month's ISM non-manufacturing index wasn't strong enough to be consistent with the official payrolls report while the ADP employment series had reported gains of just 67,000 in November.

Consequently we see some scope for a mild data disappointment with payrolls predicted to rise 150,000 versus the 160,000 consensus. The range of analysts polled by Bloomberg is 125,000-210,000.

A strong end to 2019 for payrolls growth



Source: Macrobond, ING

Assuming we are correct this would leave 2019 as having averaged 177,000 jobs growth per month versus 223,000 per month in 2018. This would be the slowest average growth since 2011, but the fact that it was a strong end to the year should help to keep consumer confidence supported in early 2020.

3.0%

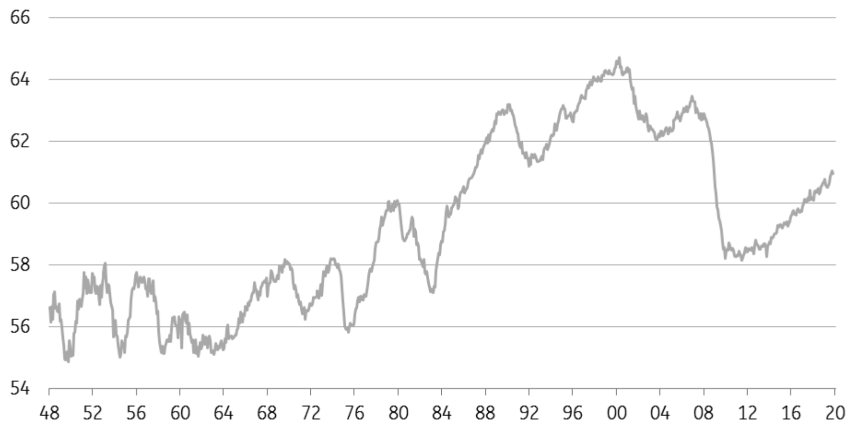
ING's forecast for wage growth

(versus 3.1% consensus)

Wage growth

Having peaked at 3.4% year on year in February, wage growth has edged lower through 2019 despite the unemployment rate being at the lowest level since the late 1960s. According to the Federal Reserve's Beige Book "the vast majority of Districts continued to note difficulty hiring driven by a lack of qualified applicants as the labor market remained very tight." One would assume this means that wages should be bid higher to compete for workers, yet we are not seeing it in the official data. One argument is that companies are satisfying workers with improved benefit packages – medical, pensions, vacation days – and are being more restrictive on salaries. However, according to the employment cost index report, benefit growth is in fact underperforming wage & salary growth.

Employment as a proportion of working age population (%)



Source: Macrobond, ING

One alternative idea is that there is more slack in the labour market than the unemployment rate suggests. If we look at employment as a proportion of working age population we see that while the ratio has been improving, it remains well below the pre Global Financial Crisis peak and is in fact still below the levels experienced in the recessions of the early 1990s and the early 2000s. Therefore, if we continue to see more of these economically disenfranchised people returning to the jobs market the upside for wage growth may continue to be rather limited. We look for wage growth of 0.2% month on month, 3.0% YoY.

3.5%

ING's forecast for the unemployment rate

(versus 3.5% consensus)

Unemployment rate

Currently at 3.5%, the US unemployment rate was last lower in May 1969. As already mentioned, this is probably not the best gauge of labour market tightness and there is scope for the pool of available labour to increase. Nonetheless, this won't happen quickly and given the typical volatility in the labour force participation rate, which rose from 62.8% in May to 63.2% in November there is scope for this number to drop back a little, helping to keep the unemployment rate at 3.5%.

What it means for interest rates

With geo-political tensions driving markets right now reaction to this report may be more limited than would otherwise have been the case. Nonetheless, it is likely to continue to emphasise the theme of a two speed economy where manufacturing continues to struggle and the service sector is performing relatively well. Jobs continue to be created in decent numbers, but there is little wage inflation threat despite apparently tight labour markets. Consequently, with the Federal Reserve seemingly content with its current monetary policy stance the prospect of any near-term interest rate moves appears remote.

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