

Weak US jobs report confirms Fed has increasing room to cut rates

The US economy only added 12,000 jobs in October, but this was depressed by strike action and hurricane disruption. Nonetheless, the trend in hiring is obviously slowing and with the inflation backdrop looking less threatening, the Federal Reserve clearly has scope to move policy closer to neutral



People in Times Square, New York

12,000

US jobs added in October

Nonfarm payrolls plunge

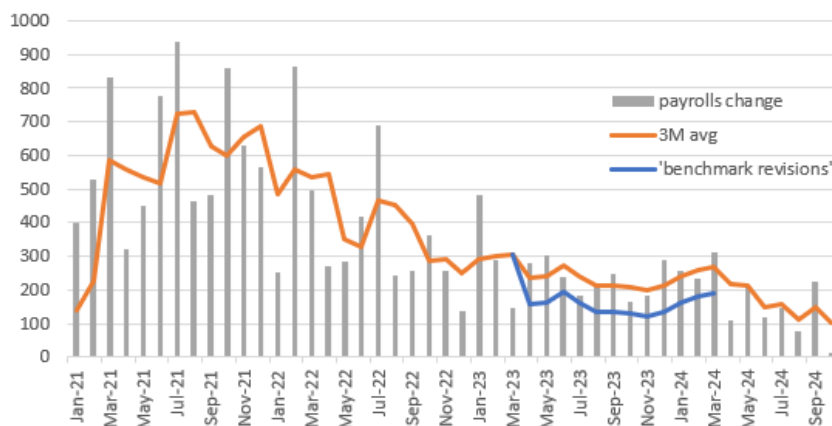
Lower than expected

Weak jobs, large downward revisions

The October jobs report shows payrolls increasing by just 12k while there were net downward revisions of 112k to the previous 2 months. This was versus a consensus forecast of 100k that took into account the prospect of weakness from significant strike action during the month and a

measurement hit due to hurricane-related disruption. Unemployment remains at 4.1%, as expected, while wages rose 0.4% month-on-month.

Monthly change in non-farm payrolls (000s)



Source: Macrobond

We knew strikes were going to subtract 44k from the total, but we were somewhat in the dark on the hurricane hit. The Bureau of Labour Statistics states, "*The initial establishment survey collection rate for October was well below average. However, collection rates were similar in storm-affected areas and unaffected areas.... It is likely that payroll employment estimates in some industries were affected by the hurricanes; however, it is not possible to quantify the net effect*". There will be a corresponding rebound in November.

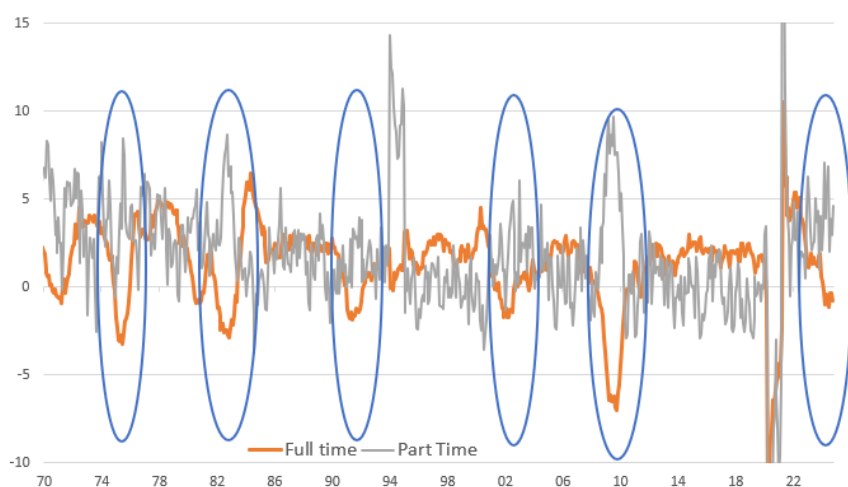
As for the details, private payrolls fell 28k, led by a 46k drop in manufacturing, where the Boeing strike (-33k) played a major role. Temporary help fell 49k, with leisure and hospitality down 4k. Government hiring continued apace, rising 40k (maybe some new election workers here), while private education and healthcare services rose 57k.

Fed has increasing room to cut rates

Regarding the Federal Reserve, the downward revisions are significant, and today's number more closely matches survey evidence from the likes of ISM, the NFIB and Homebase. Remember, too, that the BLS admits to overstating employment by a third in the April 2023-March 2024 period, and there is concern that there continues to be a structural over-estimation. There are also some concerns about the quality of the jobs being added, which appear to be focused on more part-time, lower-paid roles. The chart below shows full-time employment continues to fall in YoY terms, with the gains coming from part-time jobs.

Changes in employment

YoY% change in full-time employment and part-time employment with recessions circled



Source: Macrobond

Given the inflation backdrop is less threatening and the Fed is putting more emphasis on jobs, today's report cements expectations for a 25bp Fed rate cut next week. We expect that to be followed up by another 25bp rate cut in December.

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 <http://www.ing.com>.