Weaker US job numbers boost expectations of a September rate cut

Job creation was weaker, unemployment higher and wage growth more subdued than expected in the April employment report. With Fed Chair Powell leaning dovish at Wednesday's press conference this has breathed new life into Federal Reserve interest rate cut calls

The non-farm payrolls came in weaker than expected, boosting expectations of a September Fed rate cut

175,000

Lower than expected

The number of jobs added to the US economy

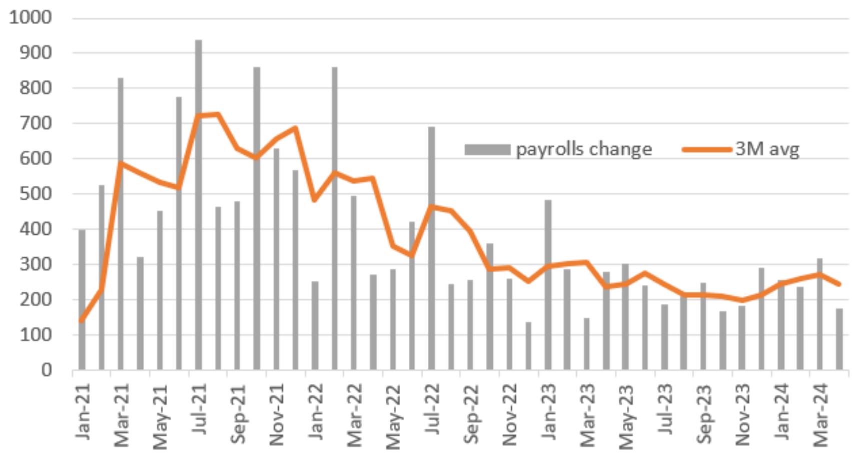
Since April

Not a terrible report, but clear signs of softening

So maybe Fed Chair Powell did get an early look at the jobs report given his dovish leaning press conference on Wednesday. Non-farm payrolls rose 175k in April versus the 240k consensus (ranged between 145k and 280k in the Bloomberg survey) and there were 22k of downward revisions to the past couple of months. The unemployment rate moves up to 3.9% from 3.8% while wage growth was softer than expected at 0.2% month-on-month, bringing the annual rate of growth to 3.9%, the slowest rate since June 2021. Rounding out the key numbers we also see the average work week dropped to 34.3 hours from 34.4.

None of this is terrible – it really isn't a 'bad' report – but it is the first time we have seen every part of the report come in weaker than expected for a very, very long time. Consequently, the market is fully discounting a 25bp September interest rate cut once again with a second one before the end of the year. Only 28bp of rate cuts were priced for 2024 as a whole just ahead of Wednesday's FOMC meeting.

Monthly change in US non-farm payrolls (000s)

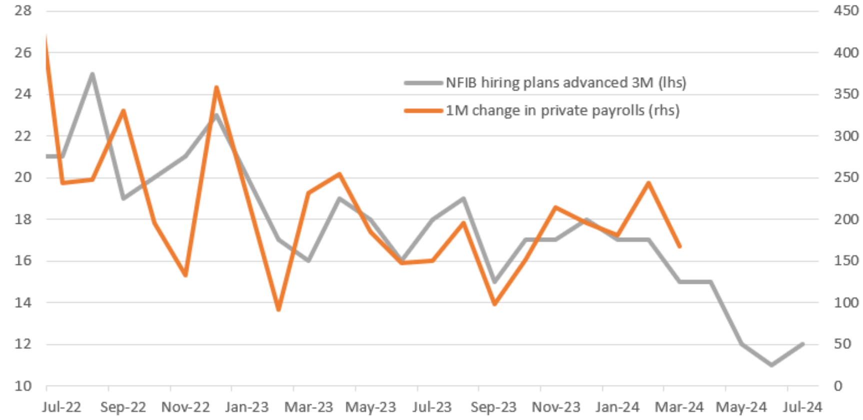


Source: Macrobond, ING

More weakness is on its way if labour surveys are to be believed

Looking at the details in the report we see that private education and healthcare services continues to be the main engine of job creation – contributing 95k of the 175k total, but leisure & hospitality (5k) and government (8k) are much weaker than has usually been the case over the past 18 months. Meanwhile the household survey, which is used to calculate the unemployment rate, showed employment rising only 25k with the number of people classifying themselves as unemployed rising 63k. The outlook for the jobs market isn't great with the ISM employment surveys and the National Federation of Independent Business hiring intentions series all pointing to further moderation in job creation through the summer.

Surveys point to further weakness in job creation to come



Source: Macrobond, ING

A September rate cut looks a strong call again

Given this situation we are sticking with our September Federal Reserve interest rate cut call. To deliver it we think we need at least three 0.2% or below MoM core inflation prints and the unemployment rate getting above 4% with a little bit more evidence of softening consumer spending growth. All of that is possible over the next five months and the Federal Reserve appears to want to cut if the data allows them – they don't want to cause a recession if they can avoid it. However, once the momentum swings in an economy things can turn nasty and we expect them to follow up with rate cuts in November and December as well.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com