What to expect from August's US jobs report

After a disappointing July report, we expect normal service to resume with a rebound in payrolls and a pick-up in pay, which should cement expectations of a September rate hike

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Jobs growth

Last year the economy created 182,000 jobs on average per month, but there's been a marked acceleration in 2018. The first seven months of the year have averaged 215,000 new jobs thanks to the strong economy, which expanded at an annualised 4.2% rate in 2Q18. Tax cuts are continuing to buoy sentiment and activity, and we think the economy is likely to expand a further 3-3.5% in the current quarter.

> *We expect to see a sharp rebound in payrolls of 210,000 versus the 193,000 Bloomberg consensus*

However, July's payrolls figure of "just" 157,000 was disappointing with the Bureau for Labour Statistics citing a loss of 31,800 jobs in the "sporting goods, hobby, book and music stores component". This undoubtedly relates to the collapse of Toys R Us retail chain which led to 33,000 workers being laid off.

Nonetheless, labour demand indicators remain robust with both the manufacturing and non-manufacturing ISM employment indices firmly in expansion territory. Meanwhile, the July National Federation of Independent Businesses survey showed the proportion of small businesses planning to hire workers remains close to all-time highs. As such, we expect to see a sharp rebound in payrolls of 210,000 versus the 193,000 Bloomberg consensus. The range of forecasts is 149,000-237,000.

210k

Change in non-farm payrolls (000s)

(ING Forecast)

Wage growth

Wages continue to be the weak link in labour market data.

Average annual growth remains just 2.7%, which is slower than the cost of living as measured by CPI – which is running at 2.9%. One argument is that companies are facing higher benefit costs – medical and pensions – which means they are being more restrictive on salaries. Nonetheless, the jobs market is very tight, and there is anecdotal evidence that pay is starting to rise more broadly.

Indeed, the NFIB reports that in the small business sector (which represents half of all US jobs) a net 32% of companies are raising compensation as they increasingly struggle to fill job openings. In July, 37% of firms said they were unable to fill vacant positions - a record high in the survey's 45-year history.

However, we must take into account statistical effects. There were 23 working days in August, but only 21 in July so if you are on a fixed salary this means that your daily and hourly pay rate will effectively be lower in August than it was in July as pay is spread over more days. Given wage growth is reported as an hourly average change, this tends to lower the growth number. Consequently, there is perhaps some downside risk to our forecast of 0.3%MoM/2.8%YoY.

However, there are only 19 working days in September so this technical quirk will unwind and could result in a big rebound in wage growth next month. The consensus forecast is 0.2%MoM/2.7%YoY.

2.8%

Average hourly earnings (YoY%)

(ING forecast)

Unemployment rate

The household survey used to generate the unemployment rate tends to be far choppier than the payrolls survey of employers, but the theme remains consistent of ongoing healthy job growth. However, the labour participation rate is towards the top end of the 62.7-63% range it has been operating in for the past two years, and if that corrects lower, it should help to nudge the unemployment rate down to 3.8% from July's 3.9% reading. This would match the recent multi-year low of May. We have to go all the way back to the late 1960s when we saw it consistently below 3.8%.

3.8% Unemployment rate (%)

(ING Forecast)

What all of this means for interest rates

The economy looks set to grow by around 3% this year, and all of the major inflation readings are at or above the Federal Reserve's 2% medium-term target. A strong jobs number and a pickup in wages would reinforce the message that monetary policy remains "accommodative" and that the Fed will continue with its strategy of "gradual" policy normalisation.

To us, this suggests one 25bp rate hike per quarter with moves in September and December looking likely.

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