

What to expect from the April US jobs report

Demand for workers remains strong given the economy's robust performance, yet the shrinking pool of available labour means competition for staff is intense. This is constraining employment growth and pushing up pay, which will support consumer spending while adding to medium term inflation risks



Source: Shutterstock

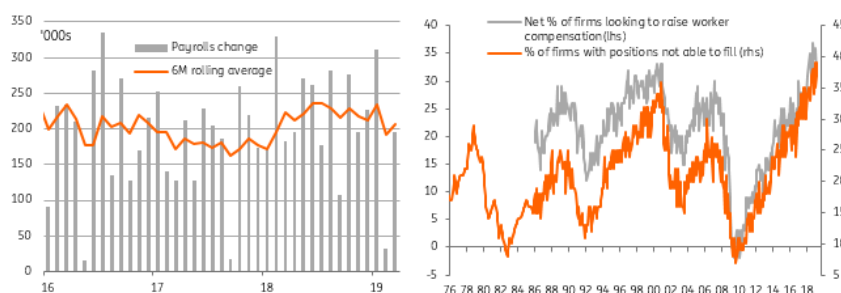
Job growth constrained by supply, not demand

The monthly change in non-farm payrolls has been fairly choppy in recent months, swinging from 312,000 in January to just 33,000 in February before rebounding to 196,000 in March. It is possible that the US government shutdown contributed to the volatility with government contractors bearing the brunt of the disruption. However, this should be over and done with by now, and we are looking for a much “cleaner” set of data in Friday's April jobs report.

The combination of firm demand for workers yet constrained supply means we look for payrolls growth of 175,000 for April versus the consensus forecast of 187,000

Demand indicators have remained firm with the Federal Reserve's Beige Book, covering the period for early April, suggesting that "employment continued to increase nationwide" with gains "most highly concentrated in high-skilled jobs". The problem for companies remains the shortage of available workers from which to hire, particularly in construction and manufacturing. This is constraining employment growth with the National Federation of Independent Businesses stating that 39% of surveyed members have job openings that are hard to fill. This is the highest proportion in the survey's 44-year history.

US payrolls growth & NFIB survey highlighting lack of available workers



Source: Macrobond, ING

With the labour force participation rate hovering at just 63%, there is the lingering hope that some potential workers will re-enter the labour force, especially given the pick-up in wage growth. However, we had been hoping for that for a considerable period, and there is little evidence to suggest it is happening.

This combination for firm demand for workers yet constrained supply means we look for payrolls growth of 175,000 for April versus the consensus forecast of 187,000. The range of forecasts according to the Bloomberg survey of 31 analysts is from 144,000 to 250,000.

175,000

ING forecast for April non-farm payrolls growth

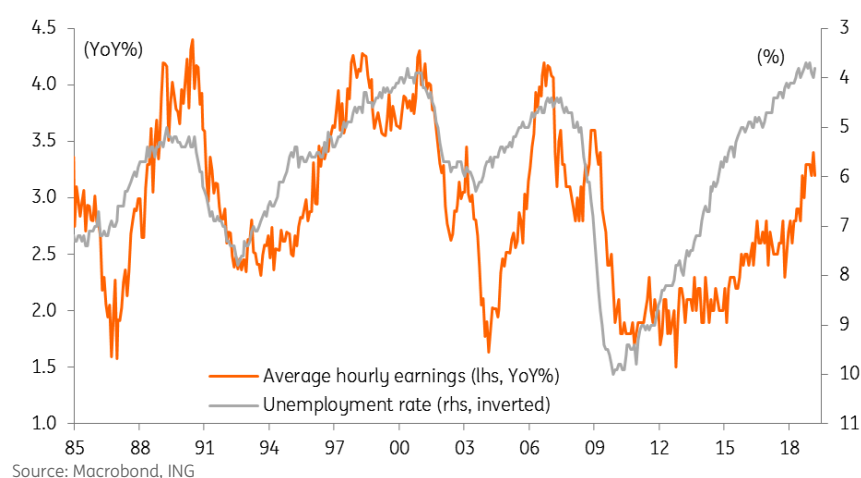
(185,000 consensus)

Wage pressures set to build

The main disappointment in last month's jobs report was the weak reading for wage growth of just 0.1%MoM/3.2%YoY versus expectations of a 0.3%MoM gain. Given the strong competition for workers, we would have expected a stronger wage figure so see scope for a rebound in April.

Certainly, the Beige Book talked of ongoing wage growth while also highlighting that "many Districts reported that firms have offered perks such as bonuses and expanded benefits packages in order to attract and retain employees". As such, we are going for an above-consensus 0.4%MoM/3.4% reading for wage growth with the median of the Bloomberg survey a tenth of a percentage point below us. 3.4%YoY wage growth would match the reading from February – you

have to go all the way back to January 2009 to find when wage growth was last higher. This also highlights the potential inflationary pressures that are building in the jobs market yet financial markets appear to be turning a blind eye.



3.4%YoY

ING forecast for annual wage growth

(3.3% consensus)

Unemployment back at 50 year low?

The unemployment rate held at 3.8% in March with some in the market believing that a return to 3.7% - levels hit in September and November last year - is possible. To put this in historical context, the unemployment rate was last lower than 3.7% in December 1969.

We have our doubts that we will see 3.7% this month, given the labour participation rate can be a little choppy and fell two-tenths of a percentage point last month. We wouldn't be surprised to see that labour participation rate rise modestly, which would make a 3.8% unemployment rate the more likely outcome in our minds.

3.8%

ING forecast for unemployment rate

(3.8% consensus)

What it could mean for the Federal Reserve

Wednesday's Federal Reserve meeting will see the Fed keep policy unchanged, but the tone of the accompanying statement and press conference may see the central bank try to push back against the market positioning that a rate cut is in the offing later this year.

The combination of decent growth and a consistent grind higher in inflation means we are firmly in the camp that expects monetary policy to be left unchanged throughout 2019

With workers secure in the jobs and experiencing higher pay this should continue to support consumer sentiment and underpin household spending. This week's ISM reports are also expected to point to healthy corporate activity with a positive outlook for investment spending. If a deal can be done on China regarding trade then this can add more positive news to the mix. As such we look for the US economy to expand at around 2.5% this year, suggesting little need for policy easing.

Moreover, with wage growth picking up and firms increasingly using benefit packages to retain and incentivise staff we suspect that the market is underplaying the inflationary pressures coming from the labour market. With gasoline prices set to push up logistic and distribution cost along with transport fares, we continue to look for inflation to rise more broadly in the US economy. This combination of decent growth and a consistent grind higher in inflation means we are firmly in the camp that expects monetary policy to be left unchanged throughout 2019.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

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