

What to expect from the December US jobs report

Employment growth is slowing, but this is more to do with a lack of available workers rather than a drop in demand. The implication is wages will keep rising, supporting confidence and spending



Source: Shutterstock

Jobs growth – Its strength is its weakness

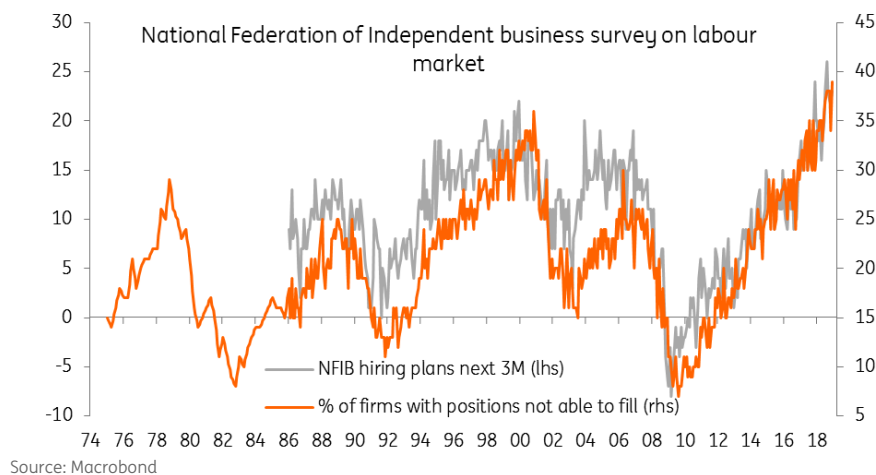
US non-farm payrolls rose a slightly disappointing 155,000 in November versus the 198,000 consensus prediction, but this wasn't necessarily bad news. After all, payrolls growth has been choppy through the second half of the year, which was in no small part down to hurricane distortions. The storms initially prevented people getting to work (and therefore being counted as 'on the payroll'), but the following month they would be added back in, plus there would be extra jobs created in the clean-up/rebuild efforts.

In fact, 2018 is on course to be the best year for job creation since 2015. On average 206,000 jobs were added in each of the first 11 months of 2018 versus the 182,000 average for 2017 as a whole and the 195,000 average for 2016. However, we think 2019 will see slower growth with the December 2018 report offering a prelude for this.

2018 is on course to be the best year for job creation since 2015

Financial markets are somewhat nervous about the US' economic prospects. For certain, there are more headwinds for growth, including the lagged effects of higher interest rates, the strong dollar, fading fiscal support and trade protection worries at a time of already slowing global growth. However, the bigger risk for the US jobs report in the next few months is actually its strength – there aren't enough available workers that have the skills employers require.

NFIB survey shows firms are struggling to fill vacancies



Indeed, the National Federation of Independent Businesses continues to report that the proportion of firms that can't fill their current vacancies remains at an all-time high. This analysis was backed by the most recent Federal Reserve Beige Book, which suggested that “over half of the Districts cited firms for which employment, production, and sometimes capacity expansion had been constrained by an inability to attract and retain qualified workers”.

So, despite strong labour demand readings from the likes of the ISM reports and the decent chance of a rebound following last month's surprise slowdown we see payrolls growth coming in at around 165,000 versus the 180,000 consensus. The range of forecasts amongst economists is 160-215,000.

165,000

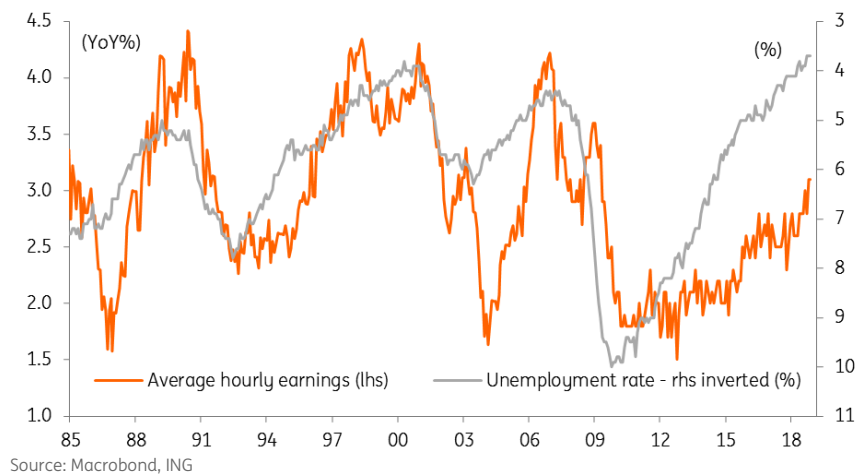
Change in non-farm payrolls

ING Forecast

Wage growth – on the bid

Wage growth had been the key thing missing from the US' strong economic run, but we are now seeing it. Average earnings are currently rising 3.1% YoY with the Beige Book noting that because of the lack of suitable workers and the competition to attract staff “most Districts reported that wage growth tended to the higher side of a modest to moderate pace”. This same report also signalled “in addition to raising wages; most Districts noted examples of firms enhancing nonwage benefits, including health benefits, profit-sharing, bonuses, and paid vacation days.”

Pay is finally responding to the tight jobs market



This increased competition for workers means we expect to see a decent rise in wages this month, which will also be helped by the fact there was one fewer working day in December versus November. Since most people are paid a salary, the way the survey works means that a worker's monthly pay is spread over fewer hours, giving an uplift to the notional average hourly pay rate. As such, we look for a 0.4% MoM increase in pay versus the 0.3% consensus prediction. This will leave the annual rate of wage growth at 3.1%.

3.1% Average hourly earnings (YoY%)
ING Forecast

Unemployment rate – can it go any lower?

The household survey, which is used to calculate the unemployment rate, has also been showing impressive employment gains. Having started the year at 4.1%, the unemployment rate has held at 3.7% for the past three months, and we suspect it will do so again in December. We have to go all the way back to December 1969 to find a lower figure, which underlines how tight the jobs market is right now. After having ticked a touch higher last month, we expect the underemployment rate – a broader measure of underutilised workers, such as those that are working part-time but want a full-time job - to drop back to 7.4% (the lowest since March 2001).

3.7% Jobless rate
ING Forecast

What it means for the Federal Reserve

Financial markets are clearly nervous about the US' economic prospects with the government shutdown and clear disagreements between the President and the Federal Reserve on policy direction adding to the unease. However, business surveys remain in decent shape with any slowdown in jobs growth more due to a lack of available workers than any cut backs to business expansion plans - at this stage.

The positive from this is that competition for workers will advantage employees through higher wages and benefit packages, which should be supportive for confidence and spending. This will also add to inflationary pressures in the economy and will keep the Federal Reserve on course to raise interest rates further in 2019. However, officials will tread a more cautious path with intensifying economic headwinds coupled with the fact the Fed is also running down its balance sheet meaning we expect two 25bp rate hikes in 2019 versus the four experienced in 2018.

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 www.ing.com.