What to expect from the May US jobs report

Friday’s US jobs report may not be enough to stem the wave of economic pessimism sweeping over markets. But with broader signs that wage growth is rising, consumer spending should continue to keep the economy underpinned for the time being. We don’t expect Fed rate cuts in the immediate future.

Content

- Jobs growth: Constrained by supply
- Wage growth: Under pressure as skill shortages mount
- Unemployment rate: Upward correction likely

Concerns over President Trump’s trade crusade, coupled with a few disappointing US data releases and one or two dovish Fed comments, have sent a wave of pessimism over financial markets. Investors are now expecting at least two, if not three, rate cuts from the Fed by the end of this year.

But while the recent escalation in trade tensions poses clear risks for the US economy, the macroeconomic data flow has so far remained reasonably solid – particularly from the jobs market. While we expect jobs growth to slow this time, we think this is likely to be caused more by supply constraints than by weaker demand. These shortages are continuing to put upward pressure on wages, which is one of the reasons we think markets are getting a bit ahead of themselves in pricing in a series of rate cuts in the immediate future.

US employment heatmap

Source: Macrobond, ING calculations
Jobs growth: Constrained by supply

We expect jobs growth to dip in May to 175,000, following a bumper April figure (263k).

Demand for labour still looks pretty solid across the economy, albeit there are one or two pockets of weakness. The retail sector has started to look a bit shaky, although this appears to have structural rather than cyclical origins – for one thing, competition is intensifying (particularly in clothing). Manufacturing has also seen a slowdown in hiring which, if a reflection of trade uncertainty, could come under further pressure in the near term given that production has slowed, as firms run down elevated inventory levels.

But equally, manufacturing isn’t immune from the skill shortage issue that is becoming more prevalent across the jobs market. The Fed’s April Beige Book (which summarises what businesses are saying across the US) noted that most areas are experiencing shortages, making it harder to fill positions. Almost 40% of small businesses have job openings that they are not able to fill according to NFIB, while these same firms report ‘labour quality’ to be their single biggest problem.

The combination of solid demand and constrained supply means that a slightly weaker jobs number should not necessarily be interpreted as a sign of emerging weakness.

Manufacturing employment has slowed

Wage growth: Under pressure as skill shortages mount

The important thing for the Fed is that these skill shortages do appear to be translating into upward pressure on wages. The most recent headline wage growth figures have levelled off at 3.2% YoY, but there are broader signs that firms are also offering more non-wage benefits to attract staff – the April Fed Beige book talked of perks such as bonuses and expanded benefits packages.

While we expect wage growth to remain at 3.2% in May, this is relatively close to cycle-highs and suggests markets may still be underestimating potential core inflationary pressures.

Average hourly earnings growth (YoY%)

3.2%
Unemployment rate: Upward correction likely

While the unemployment rate slid by two-tenths of a percent in April, this was caused by a mass exodus of job seekers from the labour force. Almost half a million workers left the workforce during the month, with around 80% of those previously registered as unemployed.

The household survey (which is different to the payroll-based measure of employment) does tend to be quite volatile, so we expect some correction this time around and that could drag the unemployment rate back up to 3.7% in the process. Either way, you have to go back to 1969 to find similar lows in the unemployment rate.

James Smith
Developed Markets Economist
+44 20 7767 1038
james.smith@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 NV 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. The producing legal entity 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 subject to limited regulation by the Financial Conduct Authority (FCA). 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.