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

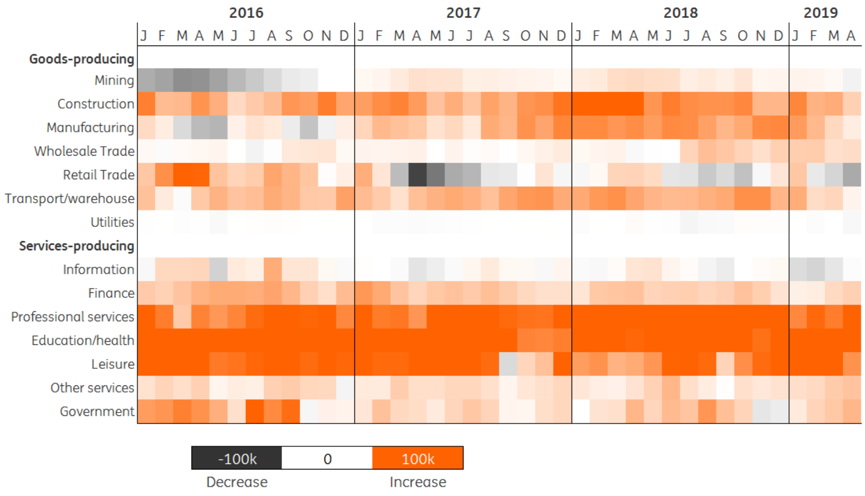
Source: Shutterstock

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

Based on three-month change in employment ('000s)



Source: Macrobond, ING calculations

Jobs growth: Constrained by supply

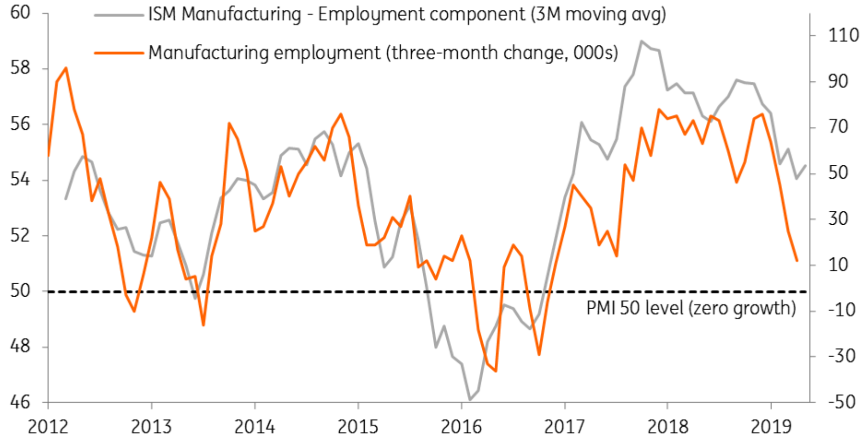
We expect jobs growth to dip in May to 175,000, following a bumper April figure (263k).

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



Source: Macrobond, ING

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.

3.2% Average hourly earnings growth

(YoY%)

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.

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