Disappointing US jobs report: A huge miss

While we were expecting jobs growth to slow down this time, few could have predicted such weak payroll numbers. The poor reading only cements market expectations for Fed rate cuts ahead

75,000

May increase in payrolls

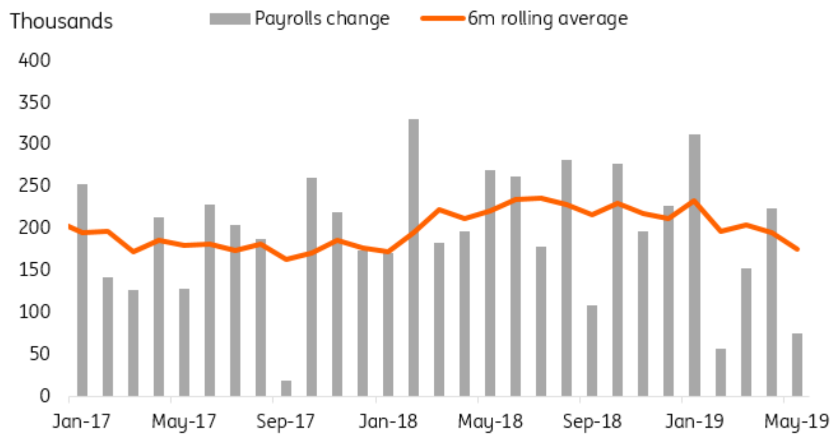
(Revised 224k in April)

Worse than expected

The latest US jobs report has done little to stem the wave of economic pessimism sweeping over markets. Jobs growth slipped to 75k, although importantly we think is more likely to be down to constrained supply rather than weaker demand for labour. Admittedly there have been one or two pockets of weakness – manufacturing employment growth has slowed in recent months, but in May, manufacturing growth barely moved from the previous month (slowed to 3000). However, we expect it to come under further pressure as production slows in the near-term

The manufacturing sector isn't immune from the wider skill shortage issue that has swept through the jobs market. The NFIB small business survey suggests that almost 40% of firms have positions they cannot fill, while these firms cite labour quality as by far their single biggest problem.

US monthly change in non-farm payrolls



Source: ING, Macrobond

In other words, a slower trend in jobs growth over coming months shouldn't necessarily be interpreted as a sign of emerging weakness. Importantly, there are broad signs that these supply constraints are gradually translating into higher wage growth.

Average hourly earnings missed estimates but still rose by 0.2% on the month and there are also signs are having to offer a broader range of incentives to retain/attract staff. The latest Federal Reserve Beige Book talked of firms using expanded benefits packages to improve retention.

> In short, the latest jobs report still suggests the US economy is in relatively solid shape for the time being. With wage growth outpacing inflation and consumer confidence close to multi-year highs, consumer spending should continue to underpin overall growth during the second quarter.
>
> But with rising concerns over where President Trump will take his trade war to the next stage, risks facing the economy are undoubtedly growing – albeit the 100bp of easing now priced in by the end of 2020 may be a little overdone.

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