Job glut fuelling US household optimism

US consumers are feeling the benefits from the red hot jobs market. With labour supply constraints set to persist there is also growing anticipation that pay rates will rise

Source: Shutterstock

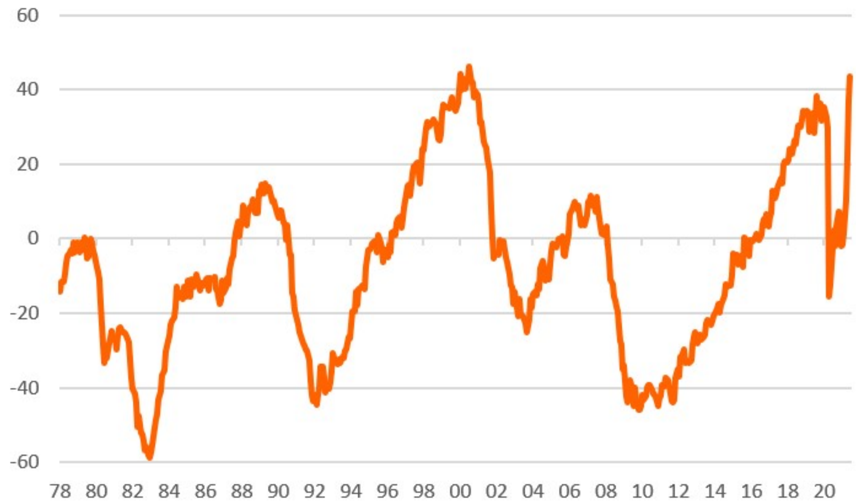
Household finances are key for sentiment

The Conference Board measure of US consumer confidence rose more than expected in June as households became increasingly upbeat on the jobs outlook and the prospects for improvements in their income levels.

Headline sentiment rose to 127.3 from 120.0, which leaves it just shy of the pre-pandemic peak. Nonetheless, it is a strong reading by historical standards given sentiment has only averaged 94.7 since 2000. Importantly, both expectations and current conditions rose by similar amounts indicating confidence in the durability of the recovery story.

The details show broad strength regarding the spending outlook, but we are more interested in the job indicators. The proportion of people who think jobs are plentiful (54.4%) less the proportion of people who think jobs are hard to come by (10.9%) has only ever been higher in 2000. Significantly this indicates that people know the jobs market is strong thereby confirming that it is the lack of workers willing or able to fill demand, which is holding back jobs growth.

Jobs plentiful less jobs hard to get (% of respondents 1978-2021)



Source: Macrobond, ING

Supply issues will hold back payrolls and boost pay rates

This lack of worker supply been attributed to four key factors. Firstly, many schools are on remote learning, forcing parents to stay at home as well. Secondly, there is still some hesitancy to return to work from some people given the pandemic is ongoing. Thirdly, many people who lost their jobs may have chosen to take early retirement, particularly with surging equity markets having boosted pension pots. Then fourthly we have the extended and uprated Federal unemployment benefits that may have diminished the financial attractiveness of returning to work.

More than half the states have, or are in the process of ending this benefit payment so we may start to see some potential workers soon return to work. However, we strongly suspect that labour market strains will linger for several more months given we are now entering school summer holiday season and for most people the Federal benefits will continue through to September.

Consequently, while we expect to see a decent employment growth figure in the range of 500,000-600,000 on Friday, we are not as optimistic as the 700,000 consensus figure. Moreover, total employment will remain more than six million lower than before the pandemic struck.

Given the strong demand for workers amidst limited supply we expect wage rates to continue ticking higher – if you want to expand your business to take advantage of the strong growth environment you will need to pay more to attract staff. This is already prompting the quit rate – the proportion of people quitting their jobs to move to a new employer – to rise to a new all-time high. Therefore, we suspect that staff rendition will increasingly be an issue that could prompt broader wage increases as businesses try and keep current staff happy.

It looks as though households are also thinking along these lines with the ratio of people expecting incomes to rise over the next six months versus those expecting incomes to fall having recovered to pre-pandemic levels.

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