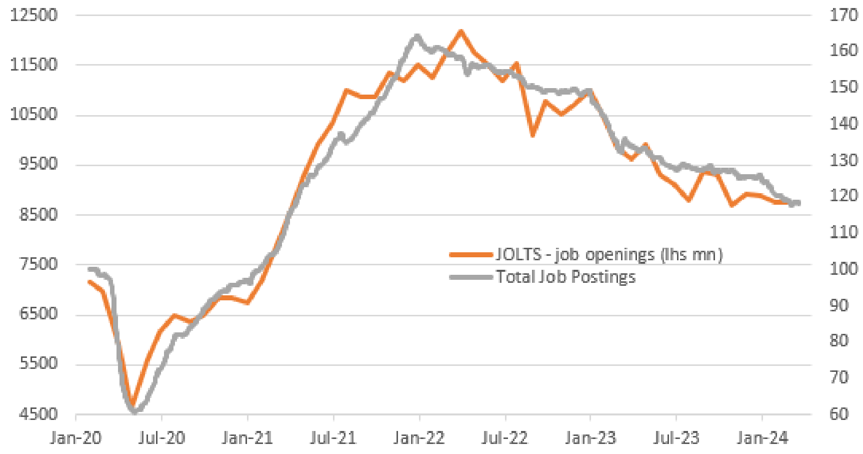
Subtle signs of a cooling jobs US market will aid the Fed's inflation fight

The number of job vacancies remains elevated, but is moving into better balance with the supply of available workers. Meanwhile a slowing quit rates suggests a broader cooling is happening, which implies a moderation in labour cost growth that will help ease broader inflation fears

The February Job Opening and Labour Turnover Statistics shows that there remains a large number of job vacancies out there, but the low quit rate implies they are not necessarily particularly attractive. Quit rates at current levels imply that labour market cost pressures will continue to cool, which should help to keep inflation trending towards 2%.

Job opening rose to 8.756mn from a downwardly revised 8.748mn in January (initially reported as 8.863mn). This is slightly better than the 8.73mn figure expected, but as the chart below shows, this is broadly consistent with the moderating trend seen in the data posted by the Indeed jobs website on vacancies.

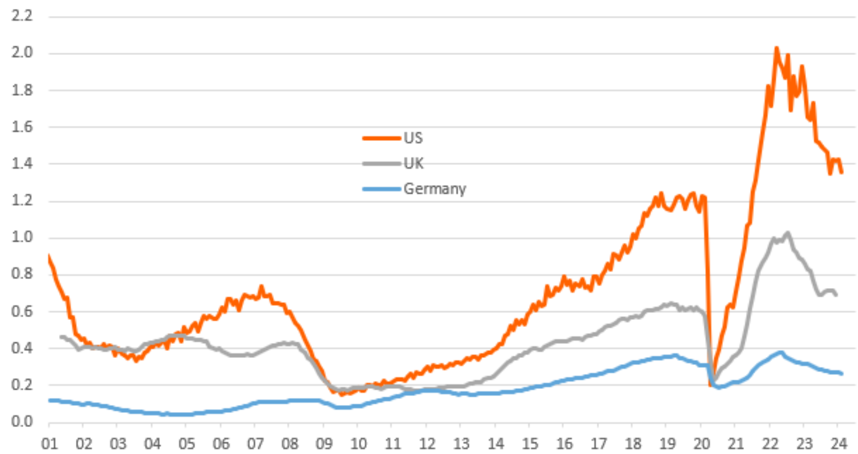
Job openings versus the Indeed job website vacancy index



Source: Macrobond, ING

This means that the ratio of job vacancies to the number of people unemployed has dropped to 1.355 from above 2 in March 2022, thereby suggesting the labour market is moving into better balance although it clearly remains tighter than the pre-pandemic period. As can be seen in the chart below, the US jobs market also remains far hotter than both the UK and Germany where there are fewer job vacancies than there are unemployed people.

Ratio of job openings/vacancies to the number of unemployed



Source: Macrobond, ING

Nonetheless, the attractiveness of those available US jobs doesn't appear to be especially high, either because of the role on offer or the rate of pay that is on offer. The quits rate – the proportion of workers quitting their job to move to a new employer – remained at 2.2% nationally and at 2.4% for the private sector. This is a significant cooling from the 3% rate recorded in the third quarter of 2022 and is a good metric for how "hot" the jobs market is. Indeed, it has been the best lead indicator for overall employment cost developments in recent years with a high quit rate signaling there were lots of jobs on offer, providing attractive rates of pay that incentivised workers to quit and move to a new role.

The US quit rate versus the employment cost index (YoY%)

Source: Macrobond, ING

However, as the chart above shows, the quits rate has slowed meaningfully. With the quits rate normalising, this implies there is less pressure or incentive for employers to raise pay rates in order to retain staff – it is at levels consistent with overall employment costs slowing to around 3%YoY, having been close to 6% in 2022. Given the US is a service sector dominated economy and labour costs are the biggest cost input for service related businesses, this implies that inflation pressures emanating from the labour market will continue to ease in coming months and help contribute to inflation gradually returning to the Federal Reserve's 2% target.

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