

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

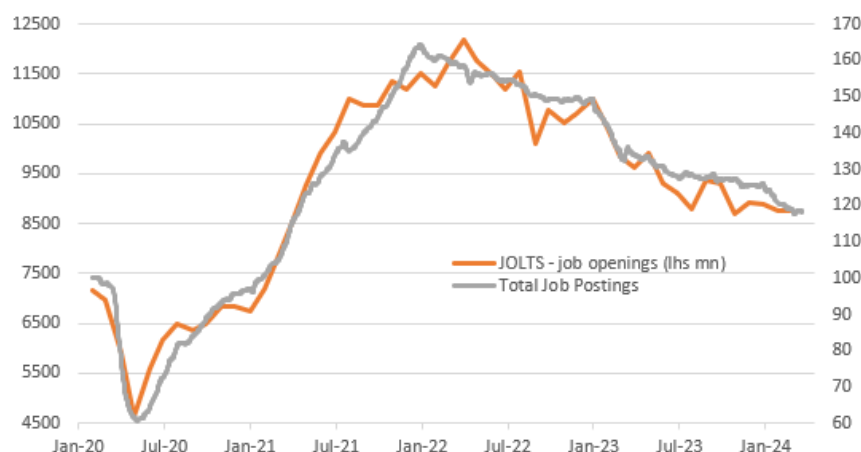
The number of job vacancies remains elevated, but is moving into better balance with the supply of available workers. Meanwhile a slowing quit rates suggests a broader cooling is happening, which implies a moderation in labour cost growth that will help ease broader inflation fears



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.

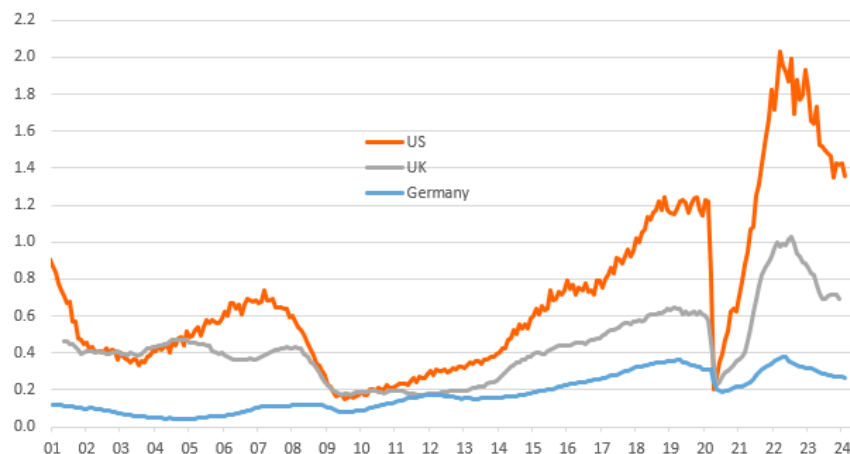
Job openings versus the Indeed job website vacancy index



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

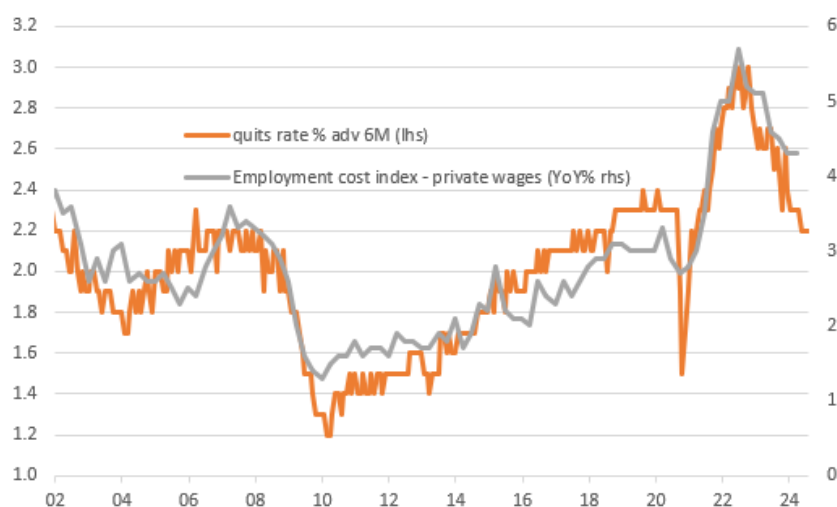


Source: Macrobond, ING

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.

Author

James Knightley

Chief International Economist, US

james.knightley@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 N.V. 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. 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 authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. 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.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.