

## The Fed wants more data before cutting, but a cooling jobs market will help

Fed Chair Jay Powell's testimony to Congress suggests an inclination to cut interest rates to a more neutral level, but with inflation still above target and the activity data beating expectations, the central bank isn't in a position to do so. More data is required, but with more evidence of a cooling jobs market we still think they can cut rates from June



### Fed's Powell inclined to cut rates this year, but needs the data to justify it

There was nothing particularly surprising within Fed Chair Powell's prepared monetary policy testimony to Congress - which is pretty short in fairness - or the Q&A session. The main comments are that "the risks to achieving our employment and inflation goals have been moving into better balance", with a reiteration that Fed members "believe that our policy rate is likely at its peak for this tightening cycle".

If the economy continues to make progress towards the Fed's goals, as expected, then it will probably "be appropriate to begin dialling back policy restraint at some point this year. But the

economic outlook is uncertain, and ongoing progress toward our 2 percent inflation objective is not assured." So a similar message to other Fed officials in that they are inclined to cut rates later this year, but need to see more evidence to justify that action.

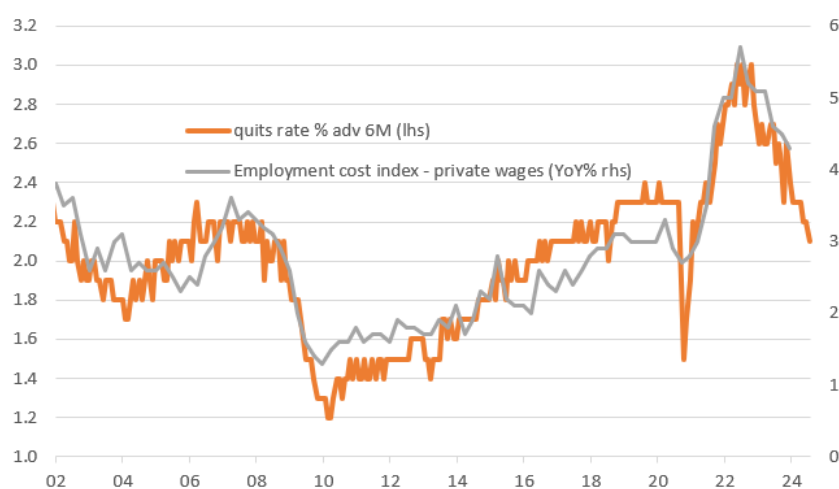
We think it will come given the evidence of a cooling jobs market (see below) and the prospect that weak real disposable household income growth, the exhaustion of pandemic-era accrued savings and high borrowing costs putting more stress on household finances will result in weaker consumer spending. This, in turn, should continue to dampen price pressures in the economy. We forecast a first interest rate cut at the June FOMC meeting.

## Falling quits ratio suggests a cooling jobs market

Today's main data report was the Job Opening and Labour Turnover Statistics (JOLTs). The US job openings (vacancy) data is broadly in line with expectations, with openings coming in at 8863k versus a downwardly revised 8889k in December. The consensus was 8850k. This is basically tracking the Indeed job website data and looks set to slow further in February towards 8500k.

We are more interested in the quit rate - the proportion of workers quitting their job to move to a new employer each month - and that slowed to 2.1% from 2.2%. It had been as high as 3% in 2022. This slowdown suggests that while there are still lots of vacancies out there, they aren't especially attractive and fewer and fewer people are interested in taking them. This has a knock-on effect in that if there is less labour market churn there is less need for an employer to pay up to retain staff.

## Falling quits ratio suggests more heat is coming out of the jobs market with cost pressures set to ease further



Source: Macrobond, ING

The chart above shows the relationship with the employment cost index - the broadest and best measure of labour costs since it includes bonuses and benefits - and it suggests an ongoing cooling, which should delight the Federal Reserve. It suggests that inflation pressures from the jobs market are normalising despite unemployment being low.

With regards to Friday's jobs report, the falling quits rate coupled with both the manufacturing and

service sector ISM employment indices being in contraction territory, plus the ADP private employment report posting a sub-consensus 140,000 increase (and the seventh consecutive reading between 104-158,000) suggests that we must surely see a slowdown in nonfarm payrolls growth. After 333,000 and 353,000 prints for December and January, respectively, economists are pencilling in a 200,000 forecast but given the propensity for official data to come in far hotter than survey and anecdotal evidence, confidence is low in this prediction.

## Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto: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](http://www.ing.com).