US households are noticing the cooling jobs market

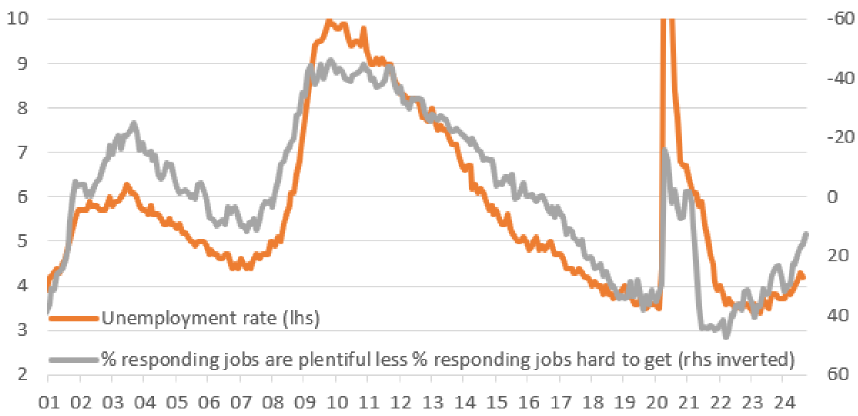
The latest Conference Board consumer confidence report suggests households are noticing the jobs market is cooling quickly. Historically this has been a major warning signal that unemployment is going to rise. This report suggests a breach of 5% is possible before year-end, which would undoubtedly raise the odds of a second 50bp Fed rate cut

The Conference Board measure of consumer confidence looks disappointingly soft with the headline index dropping to 98.7 in September from 105.6 in August (initially reported as 103.3). The consensus forecast was 104.0 with the outcome being lower than anyone was predicting in the Bloomberg survey – the lowest individual submission was 101.0 from 46 different groups. Expectations dropped from 86.3 to 81.7 while the current conditions index dropped 10.3 points to 124.3. This is quite an alarming decline and is the weakest outcome since March 2021 for current conditions.

The labour differential – jobs plentiful less jobs hard to get looks especially worrying (see chart below). This suggests people are now noticing a clear cooling in the jobs market and this measure has a tendency to lead changes in the unemployment rate. We are currently at levels historically consistent with the unemployment rate rising above 5% in the next few months. If that happens the market is right to expect another 50bp cut at either the November or December FOMC meetings – remember last week the Federal Reserve said it was only expecting the unemployment rate to rise to 4.4% by year-end.

This data is also consistent with the fall in the quit rate – the proportion of workers quitting their jobs to move to a new employers. That has been indicating that either the jobs on offer were not particularly attractive or that workers were starting to value tenure in case they were to be laid off. This really puts the onus on next week's US jobs report. Anything around the 50,000 mark on non-farm payrolls or if the unemployment rate resumes its upward grind would lift talk of the Fed needing to loosen monetary policy more swiftly.

Consumers are feeling a cooler jobs market, which points to further rises in the unemployment rate



Source: Macrobond, ING

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com