US jobs report boosts case for rate cuts

A disappointing jobs number for September coupled with a slowdown in wage growth suggests the fundamentals underpinning consumer spending may not be as strong as hoped. With business surveys moving lower, the case for more policy stimulus is building

136,000

September payrolls growth

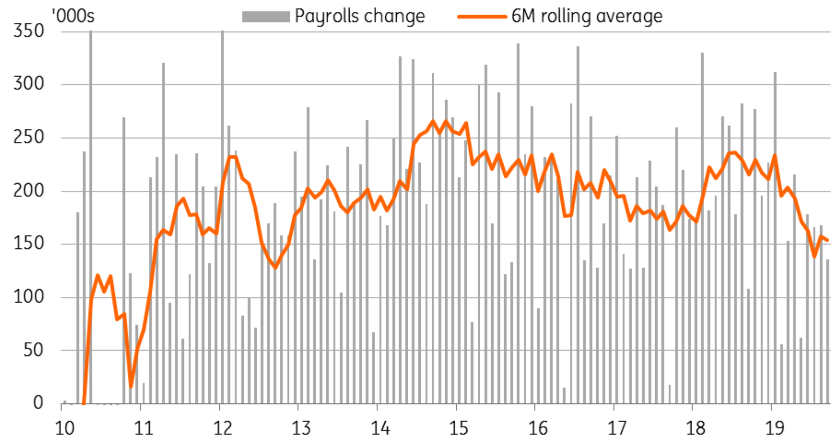
Lower than expected

The September US jobs report shows payrolls growth of 136,000, which was a touch weaker than the 145,000 consensus. It reinforces the message that jobs growth is slowing and with wages also undershooting expectations – growth of 2.9% year-on-year versus expectations of 3.2% - the fundamentals underpinning consumer spending may not be as strong as we had believed.

Looking at the details we see manufacturing employment fell 2,000, which isn't quite as bad as the ISM employment component had suggested was possible, but retail fell for the eighth consecutive month and Federal government employment also fell. Business services and health/education remain relatively firm, but there is a general drift lower in job creation in all other sectors.

Despite this, unemployment fell to 3.5%, the lowest since 1969, with underemployment also dropping - this uses a different survey. On the face of it, this should be good news for wages as the competition to find workers with the right skill sets heats up, but it hasn't worked out that way. Wage growth instead slipped to 2.9% from 3.2%, which is a big miss given the strong run of late and the fact there were far fewer working hours in September versus August, which should have helped boost the average hourly earnings figure.

US payrolls growth is losing momentum



Source: Macrobond, ING

Taking this altogether, we have seen payrolls growth slow from an average of 223,000 per month in 2018 to 161,000 for 2019 so far. Initially, there was evidence to suggest that this decline was because employers were struggling to find enough workers to fill vacancies, with unemployment at 50 year lows – effectively a supply led downturn.

Unfortunately, there is growing evidence that it is now being caused by a downturn in demand. Given the deterioration in the key ISM manufacturing and non-manufacturing surveys, we expect to see employment growth continue to slow. Yesterday the National Federation of Independent Businesses reported that the proportion of small firms looking to hire new workers fell to 17% - the lowest since February.

With the headwinds from weaker global growth, trade uncertainty and the strong dollar unlikely to disappear anytime soon we are looking for payrolls to average closer to 120,000 for the rest of the year. This suggests pay growth is unlikely to accelerate markedly from here and with inflation picking up, the real wage growth story may not be as positive for spending power.

All in all, it looks as though the Fed will need to step in with more policy easing to support the economy. Currently we are forecasting a December rate cut with a further rate cut in 1Q20. However, we have a lot of Fed officials scheduled to speak over coming days and any hint of a dovish shift will quickly lead us to pencil in another move on 30 October.

Author

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

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