US payrolls support a pause... but not for long

Stronger-than-expected US payrolls, with decent upward revisions, support the case for a December Fed pause, but we are nervous about weakness in business surveys and the likelihood that employment growth will continue to trend lower

A Donald Trump supporter at a presidential rally in Michigan

128,000

Change in non-farm payrolls in October

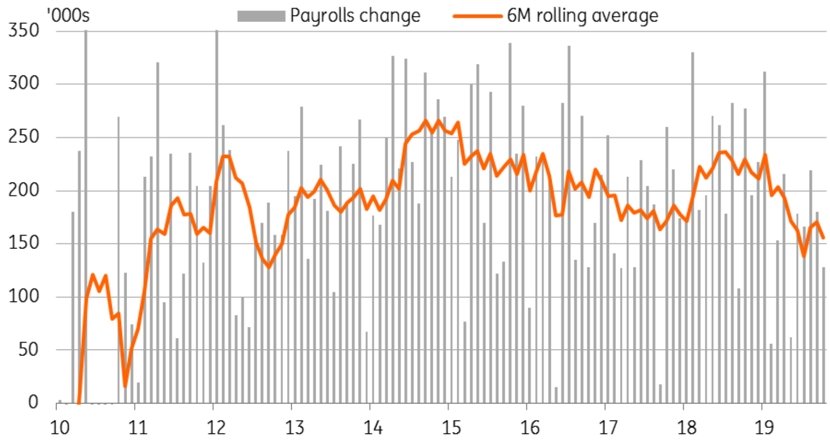
(Consensus 85,000)

An upside surprise!

US non-farm payrolls beat expectations in October, rising 128,000 versus the consensus forecast of 85,000. What's more impressive is that this was despite the GM strike (and the associated knock-on at suppliers), which subtracted 41,600 from the figure – if you aren't working then you aren't counted as employed for this survey. Moreover, with a net 95,000 upward revision to jobs numbers for August and September it suggests that the US labour market is more resilient than feared and offers support to the view that the Fed well may leave interest rates unchanged in December after three consecutive cuts.

Nonetheless, payrolls growth remains on a softening trend. Having averaged 223,000 jobs per month through 2018, employment creation is running at a net 167,000 for 2019. Interestingly, this can be broadly seen in all components expect one – leisure and hospitality – which has recorded consecutive gains of 48,000, 45,000 and 61,000 per month. The fact that this one, relatively modest-sized component was responsible for half of all the jobs created is perhaps a signal that we shouldn't get too excited by today's figures

Payrolls growth continues to slow



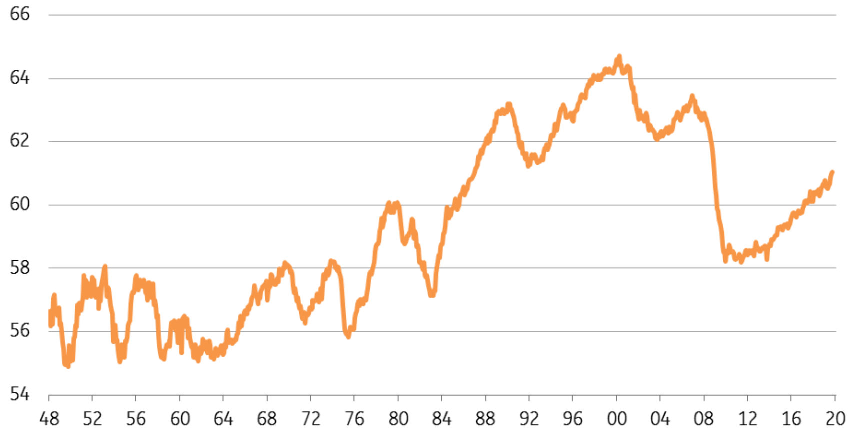
Source: Bloomberg, ING

But wage growth remains subdued

The other parts of the report weren't quite as positive. The unemployment rate ticked higher by a tenth of a point to 3.6% while wage growth rose 0.2% versus the 0.3% consensus. This leaves the annual rate of wage growth at 3%, which is respectable, but still low by historical standards and when considering the low unemployment rate.

If we take account of the relatively low participation rate we find that employment as a proportion of total working age population is only 61%, well below the levels experienced in the twenty years between the mid-1980s and mid-2000s. It is also important to remember that the US experienced two recessions during this period and the employment ratio still remained above where we are today. This could be a factor that has limited the upside for wage pressures.

Employment-to-working age population ratio (%)



Source: Macrobond, ING

Fed to stay on an easing path

In terms of where we go from here, we note that business investment contracted in both 2Q19 and 3Q19 and we suspect it will contract again in 4Q given the weak durable goods orders numbers. This is not an encouraging signal for business sentiment and the willingness of companies to put money to work. The knock-on effect is that it also implies businesses are going to be more reluctant to hire workers, which suggests payrolls growth will likely slow further and upside pressure on wages will become less intense.

Wednesday's FOMC press release and Jerome Powell's press conference clearly indicated the Federal Reserve's preference is to take stock of the impact of the July, September and October interest rate cuts and probably pause in December. Today's report seemingly supports that assessment. However, we continue to highlight that the data flow indicates that the slowdown that started in manufacturing is spreading to other sectors of the economy and with little to suggest an imminent turnaround in global economic prospects, we still see a strong chance that the Fed will need to cut rates further. We continue to have a December 25 basis point cut in our forecasts, but obviously there is a growing likelihood that slips into 1Q 2020.

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