US: The slow grind on jobs

Jobless claims edge lower again, but remain incredibly elevated as labour market strains continue. Incomes have also been dropping back and spending growth is starting to slow as we see more evidence of a leveling off in the recovery

Source: Shutterstock

Labour market strains persist

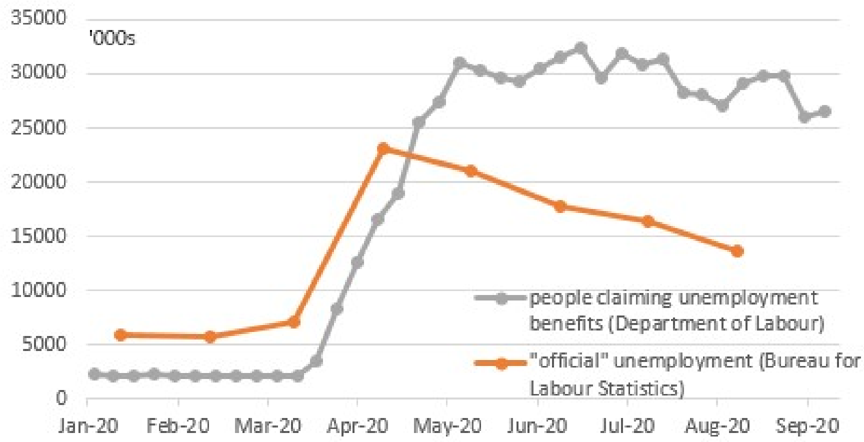
The jobless claims report is reasonably encouraging. US initial jobless claims fell 33k to 837k for the week of September 26 versus expectations they would drop to 850k. Continuing claims moved down to 11.767mn from 12.58mn, better than the 12.2mn consensus. The total number of people claiming unemployment benefits (including pandemic unemployment assistance) unfortunately rose to 26.53mn from 26.04mn.

There continue to be issues with California data so there is scope for large revisions in all the numbers. Moreover, while the claims numbers are in general moving in the right direction (lower) they remain very elevated, indicating ongoing strains in the jobs market. Remember that the peak in initial claims during the Global Financial Crisis was 665k the week of March 27, 2009, so we are still 172k above that even after today's dip.

Meanwhile, high frequency Homebase employment data suggests that jobs growth has stalled and with Covid-19 cases picking up there are also potential worries about the reintroduction of new containment measures that could hurt employment prospects. Several European nations are adopting containment measures once again although the November 3 election may mean that

State Governors are less inclined to go as aggressively.

US unemployment measures



Source: Macrobond, ING

Spending not quite as robust as hoped with savings slowing

We have also had the August personal income and spending report, which shows personal income fell a little more than expected (-2.7% month-on-month in August) due to the scaling back of the Federal unemployment benefit (consensus -2.5%), while real personal spending rose a touch more than anticipated at 0.7% MoM vs Consensus 0.5% – however there was a substantial 0.5ppt downward revision to July's growth rate so the consumer spending number forecasts for 3Q20 will likely be revised marginally lower. That said it is unlikely to prevent the US from recording 30% annualized growth in 3Q – obviously a new record on the relief of economic re-opening.

One big surprise was that the core PCE deflator – the Federal Reserve's often favoured measure of inflation – rose more than anticipated to 1.6% from 1.4% year-on-year, which has put a little upside pressure on Treasury yields. However, the Fed are not going to be changing their outlook anytime soon and remain firmly backing the view that rates won't be raised until 2024 given medium-term price pressures remain muted on the back of a significant output gap and high levels of unemployment that will keep wage growth depressed for some time.

Tomorrow's US jobs report

Employment plunged 22.16mn between February and April, but the re-opening of the economy from May has seen more than 10.6mn of those jobs recouped. The market is looking for another increase in September, but of "only" 900k, meaning employment would remain more than 10.5mn lower than February even after five months of gains.

Evidence from high-frequency data, such as payrolls tracking figures from Homebase suggests a plateauing in private sector employment while purchasing managers' indices suggest only modest gains. Set against this we know that last month's employment increase of 1.37mn included 240k government Census workers who were chasing people up to fill in their forms. There is going to be a partial unwind in the September report which will subtract from the headline figure.

At the same time, initial and continuing claims remain highly elevated, underlining the strains in the jobs market – remember initial claims remained 200k above the peak level experienced during the Global Financial Crisis through the survey period. We, therefore, look for payrolls growth of 850k with the unemployment rate only moving slightly lower as job gains are offset by a rising participation rate.

We would just caution that there could be some additional downside risk from the confusion over in-person and remote schooling. With many parents having to stay at home as remote schooling continues in many parts of the country this could further constrain jobs growth.

Author

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