

2 September 2016

Flash Comment US

Jobs report not strong enough for a September hike – a December hike cannot be ruled out if data improve

Overall, the jobs report was to the weaker side

Nonfarm payrolls rose 151,000 in August, just marginally above the increase in April, which is considered a weak month. This said, the weaker employment growth in August came after two very strong months in June and July, when employment growth was above 270,000 in each month. Looking at the three-month moving average, it has recovered back to 232,000. The private payroll figure was 126,000, so 25,000 of the jobs added in August were government jobs.

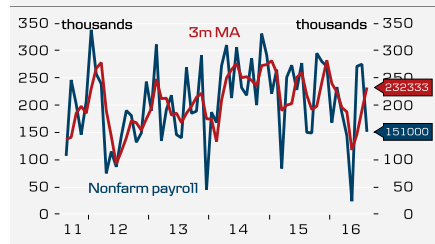
Still, we think the jobs report overall was on the weaker side. Average weekly hours fell from 34.4 in July (revised down from 34.5) to 34.3 in August, the lowest since early 2014. So, more people found employment but they are working less hours.

Looking at the unemployment rate, it was unchanged at 4.9% in August and it seems to have stabilised around the current level in 2016. In other words, the downward trend from 2011 to 2015 seems to have stopped for now. Also the broader unemployment measure U6 (the so-called underemployment rate) has stabilised this year and was unchanged at 9.7% in August (see the chart to the right). **Overall, there is still more slack left in the labour market than previously thought.**

Wage growth was weak in August, as average hourly earnings rose only +0.1% m/m in August, below the recent trend. Looking at the annual growth rate in average hourly earnings, it declined from 2.7% to 2.4%. So, wage inflation is still subdued. Given that focus on wage growth has increased (especially due to the ongoing presidential election campaign, in which wage growth is a theme), this is bad news for the Fed. The weak wage growth is likely to be due to a combination of weak productivity growth and remaining labour market slack.

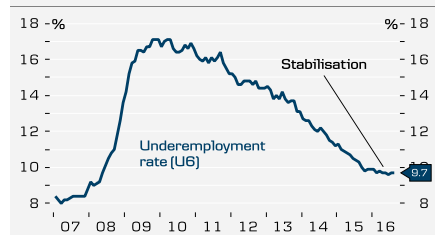
Overall, the August jobs report was not strong enough for the Fed to hike at the next meeting in September, especially not after the very weak ISM report released yesterday, with the index falling below 50, indicating a contraction in the US manufacturing sector. **Although our view is that the Fed will stay on hold until H1 17, we cannot rule out a hike later this year, most likely in December following the presidential election,** if we see some recovery in the US activity data and continued decent jobs growth in coming months. One main reason we moved our expectation for the next Fed hike to next year was due to Brexit but, so far, the economic impact of Brexit has been very limited in the rest of Europe and the US. Still, as we have argued for some time, most voting FOMC members have a dovish-to-neutral stance on monetary policy and would rather postpone the second hike than hike prematurely, although some FOMC members (especially non-voters) appear to be eager to get going with the hiking cycle. The Fed can afford to stay patient, as GDP growth has been just around 1% for three consecutive quarters, PCE core inflation is still below 2%, inflation expectations (both survey based and market based) have fallen and wage inflation is still subdued.

Employment growth on the weaker side in August after two very strong months



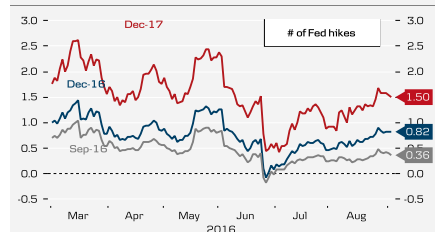
Source: BLS

Underemployment rate has stabilised in 2016 – still slack left in the labour market



Source: BLS

Market expectations for a September hike declined after the release

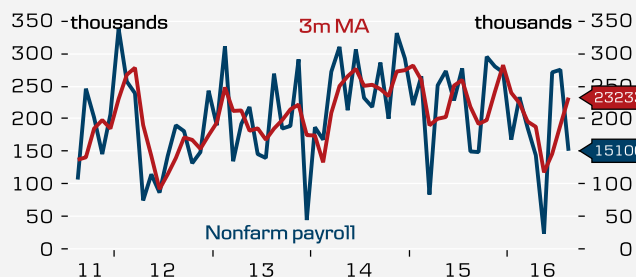


Source: Bloomberg

Senior Analyst
Mikael Olai Milhøj
+45 45 12 76 07
milh@danskebank.dk

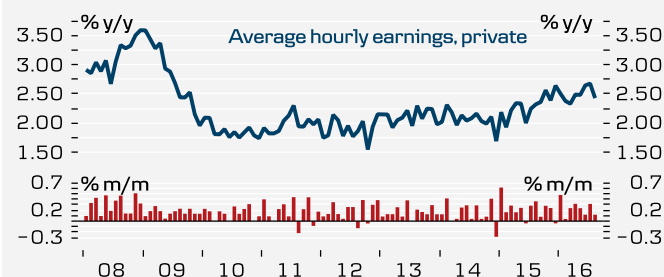
Employment

Despite weak headline employment growth, 3M moving average has picked up due to strong increases in June and July



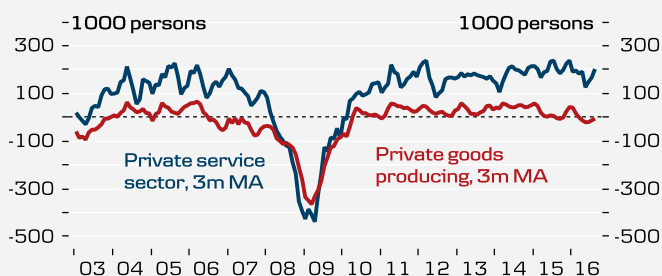
Source: BLS, Danske Bank Markets

Only modest wage growth in August – wage inflation down to 2.4% y/y



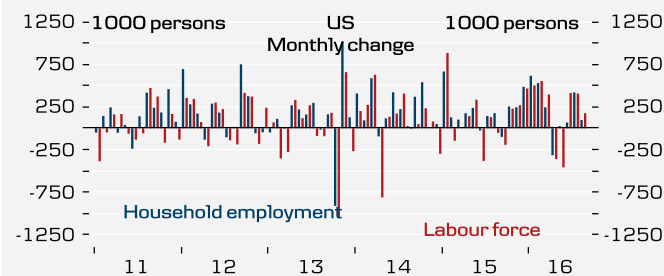
Source: BLS, Danske Bank Markets

Employment driven by services



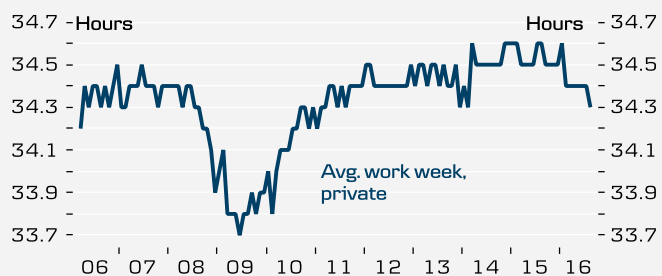
Source: BLS, Danske Bank Markets

Increasing labour force explains unchanged unemployment rate



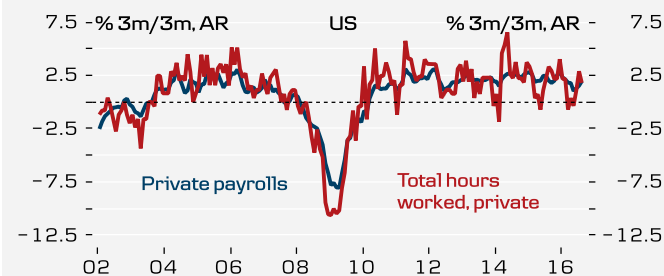
Source: BLS, Danske Bank Markets

Average weekly hours declined to 34.3, the lowest since the beginning of 2014



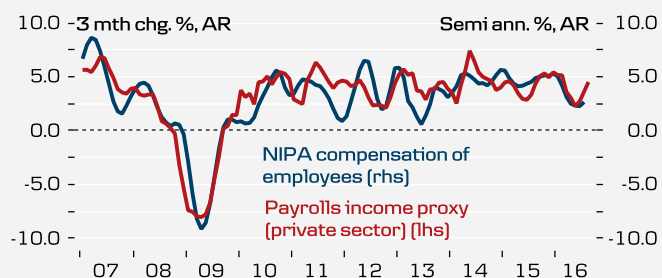
Source: BLS, Danske Bank Markets

Total hours worked vs payrolls



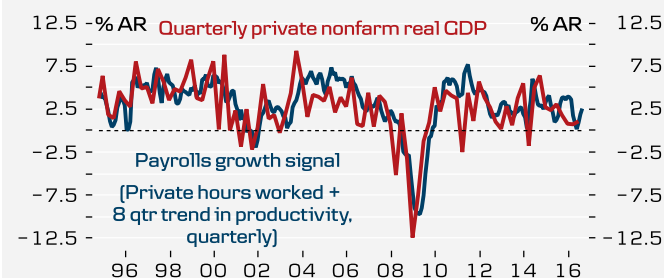
Source: BLS, Danske Bank Markets

Payrolls income proxy



Source: BLS, Danske Bank Markets

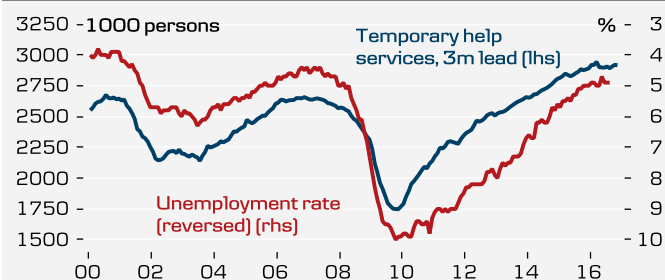
Payrolls GDP signal



Source: BLS, Danske Bank Markets

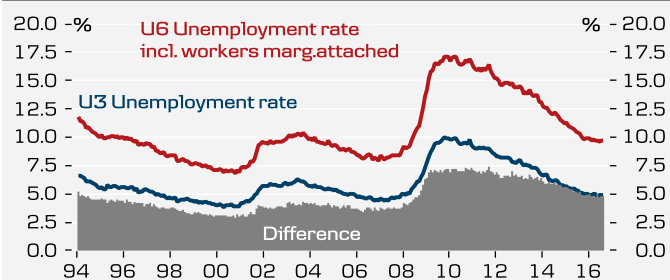
Unemployment

Temporary help services and unemployment



Source: BLS, Danske Bank Markets

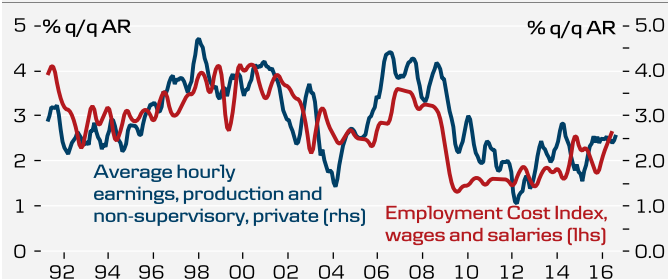
Unemployment narrow and broad measure



Source: BLS, Danske Bank Markets

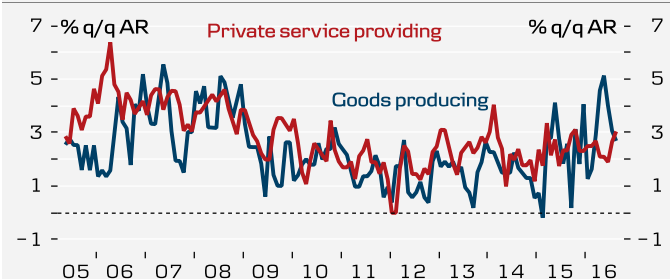
Wages

Average hourly earnings and Employment Cost Index



Source: Macrobond Financial, BEA

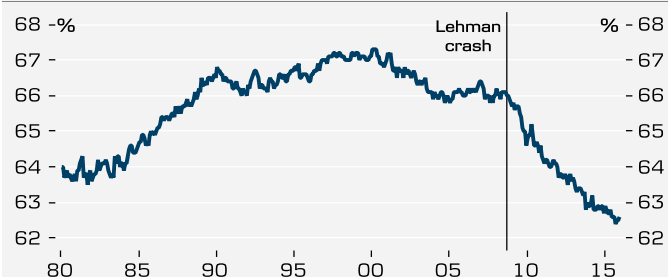
Hourly earnings, production and non-supervisory



Source: Macrobond Financial, BLS

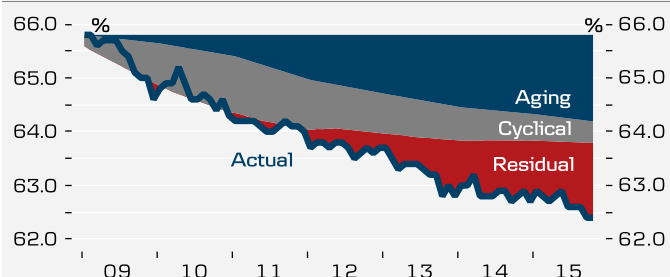
Participation

Participation rate, all



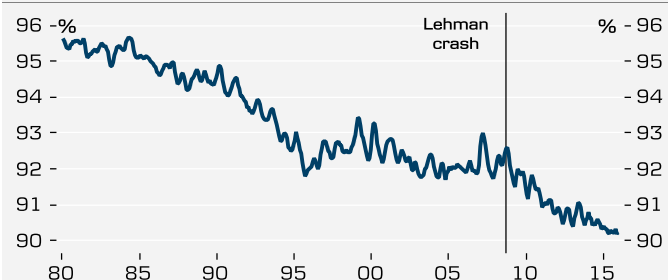
Source: Macrobond Financial, BLS

Modest cyclical rebound in the participation rate on the cards



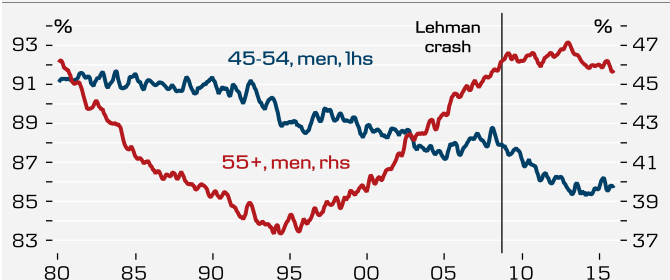
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

Participation rate, 45-54 and 55+, men



Source: Macrobond Financial, BLS

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None.

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