

US Labour Market Monitor

Labour market one of the few bright spots left in Fed's chart book

Jobs report preview

The labour market tightened significantly in 2015, which was the main reason why the Fed raised the target rate in December, as PCE core inflation is still subdued. **Since then there has been much uncertainty about the true state of the US economy, as the financial turmoil in the beginning of 2016 partly reflects growth concerns due to monetary tightening and weak data releases. The big question is when Fed will increase the target range next time.** At the FOMC meeting on 27 January the statement was relatively dovish, which supports our view that Fed will skip March as well, see also *Less 'confident' Fed likely to stay on hold in March as well*, 27 January. Markets are pricing less than one hike this year. The jobs report will be very important as the strong development in the labour market is one of the few bright spots left in the Fed's 'chart book'. **A weak jobs report could be a game changer for the Fed and could also weigh significantly on market sentiment. A strong jobs report would calm the markets and the Fed as further job growth would indicate a solid underlying growth trend in the US economy.** Wage growth picked up in 2015 but is still subdued. Even if we get a strong jobs report the Fed would like to see some more wage inflation before it will increase the target range next time, as it is no longer 'reasonably confident' that inflation will reach 2%.

We estimate non-farm payrolls increased 200,000 in January, which is in line with the recent trend growth (consensus is 190,000). The growth in employment is mainly driven by private services, as we expect manufacturing employment to be unchanged. As job growth in December was well above trend, we see a risk that employment growth in January might be lower due to overshooting in December. This could be interpreted by the markets as a sign of weakness, although it may be due to pure volatility. We estimate the unemployment rate was unchanged at 5.0%.

We estimate that average hourly earnings (AHE) grew 0.3% m/m in January implying a growth of 2.2 % y/y, which is in line with consensus. Thus we expect the wage growth to have declined in January but this mainly reflects a large increase in wages in January 2015. That said, wages have not grown this fast since 2009. As we expect the labour market to continue to tighten in 2016, we also expect wage growth to increase further.

General condition of the US labour market

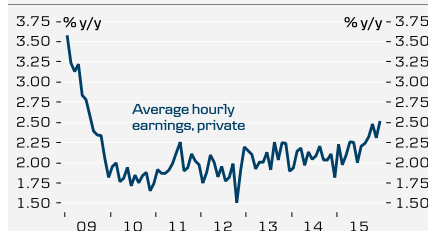
In general we expect the US labour force to grow in the range 100,000-150,000 per month. Thus the labour market tightened significantly in 2015 with average job growth of around 200,000 per month. We expect the labour market to tighten further, which should bring unemployment below NAIRU. This should put upward pressure on wages and thus PCE core inflation in the medium term. This is why the Fed still signals that it wants to tighten further as it to a large extent sees the world through the eyes of the Phillips curve.

Danske Bank forecasts (January)

	DB	Consensus	Prior
Non-farm Payrolls	200	190	292
-Private	190	180	275
-Manufacturing	0	-2	8
-Service	200	-	230
-Construction	-10	-	45
-Mining and logging	-	-	-8
-Government	10	-	17
Unemployment rate	5.0%	5.0%	5.0%
Avg. hourly earnings	2.2%	2.2%	2.5%

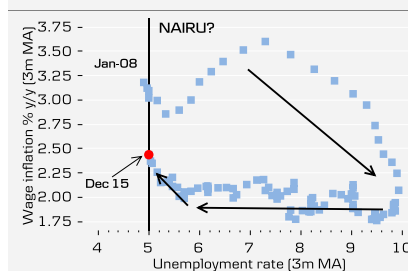
Source: Macrobond Financial, Danske Bank
Markets calculations

Fed wants to see higher wage inflation



Source: BLS, Danske Bank

Phillips curve key to understand Fed's thinking



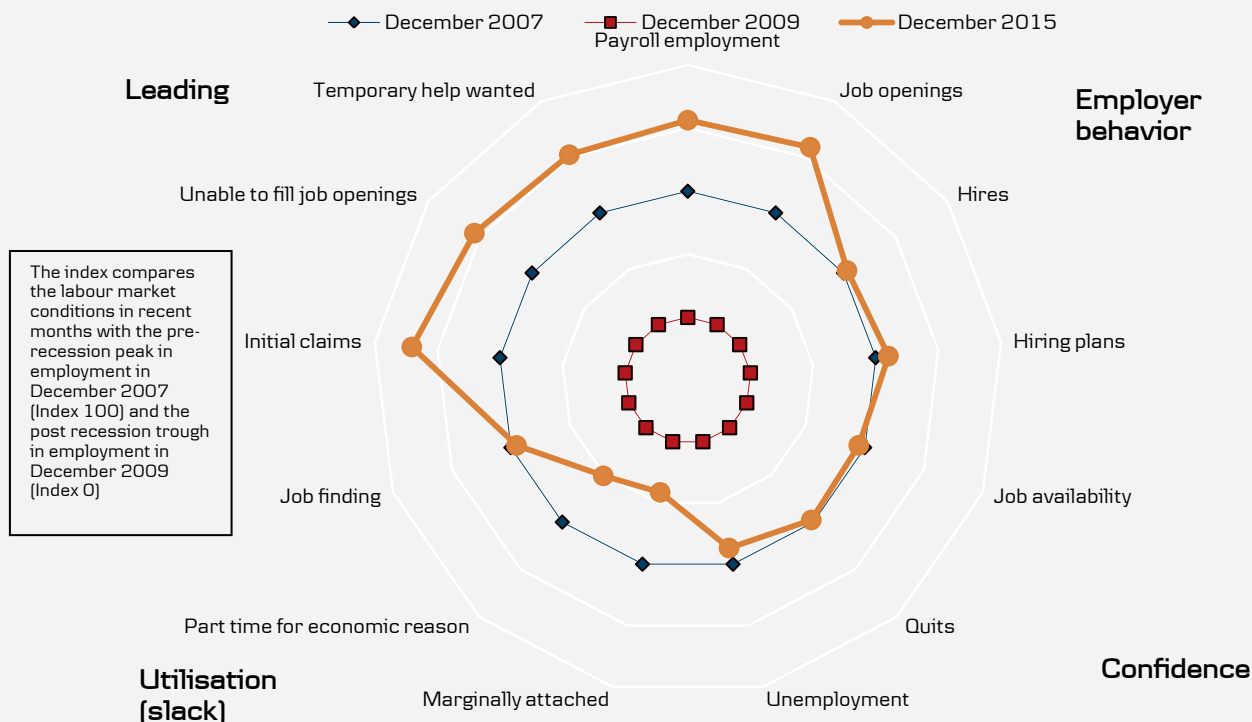
Source: BLS, Danske Bank Markets

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US labour market in one chart

Strong labour market growth but slack remains – outward moves indicate stronger labour market



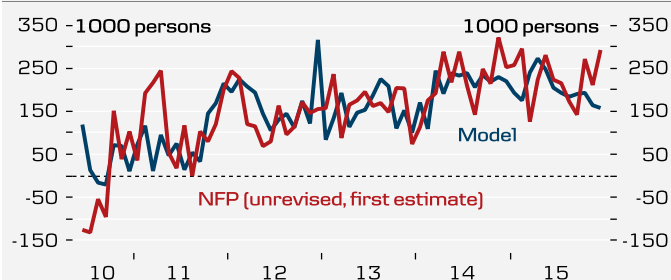
Note: The diagram shows the level of tightness of different US labour market key figures at different times, compared with the level of the same figures in December 2007 (index=100) and December 2009 (index = 0). Counter cyclical figures (unemployment rate, jobless claims, marginally attached and work part time for economic reasons) are inverted; thus, the higher index (the further from the middle) the better (tighter) is the state of the labour market

For JOLTS data we have used the average of the last two observations as the newest figures

Source: BLS (JOLTS), Macrobond Financial

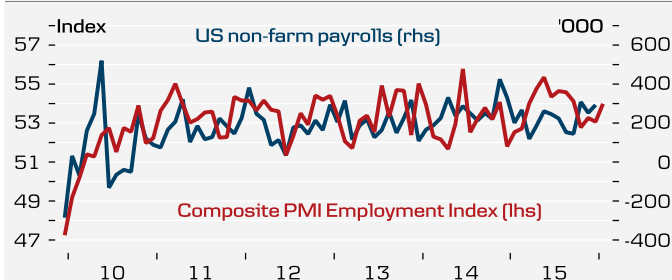
Models and leading indicators

Our model has underestimated employment growth



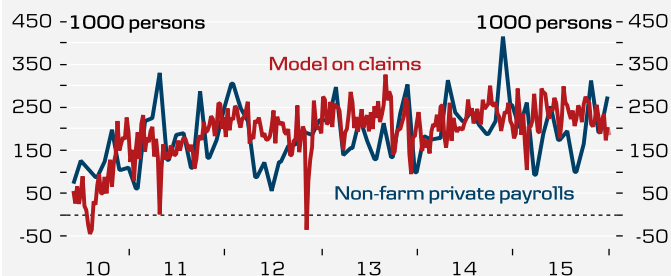
Source: Macrobond Financial, Danske Bank Markets calculations

PMI employment suggests stable employment growth of around 200,000



Source: Macrobond Financial, ISM, BLS

Initial jobless claims model suggests slower job growth



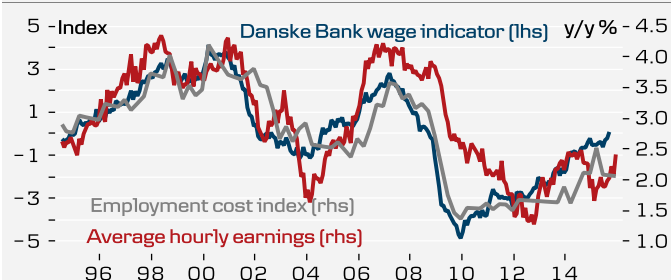
Source: Macrobond Financial, US Department of Labor

Small business hiring plans next three months



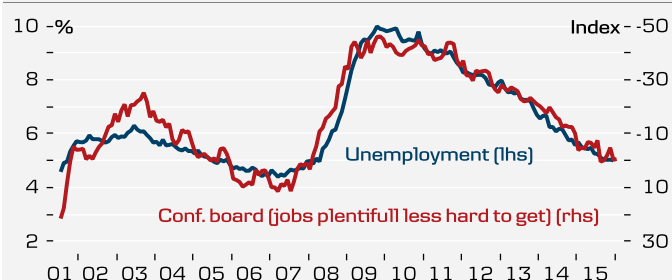
Source: Macrobond Financial, NFIB

Danske Bank wage indicator and wage inflation



Source: BLS, Danske Bank Markets

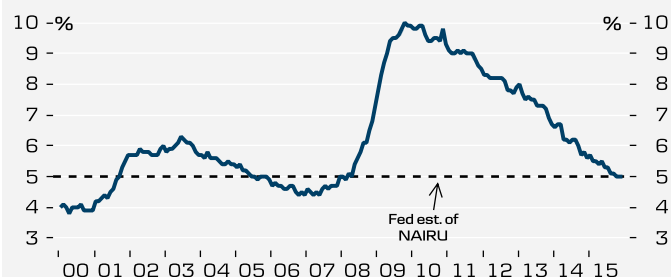
Worker confidence and unemployment rate



Source: BLS, Conference Board

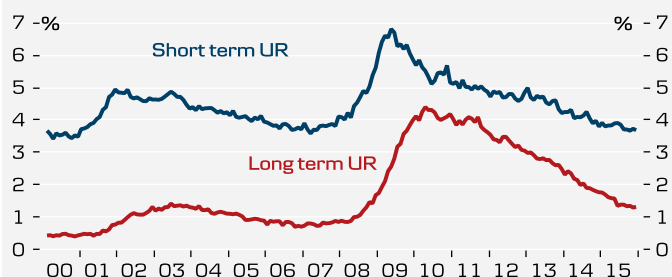
Unemployment measures

Unemployment rate at NAIRU



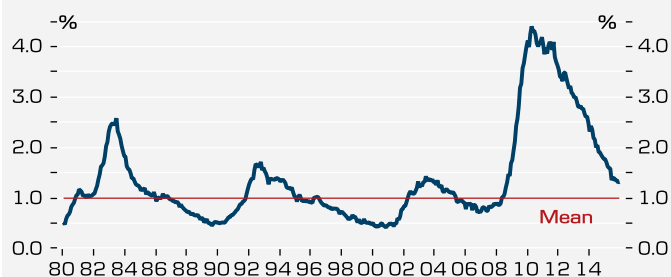
Source: Macrobond Financial, FOMC, BLS

Unemployment decomposed by duration



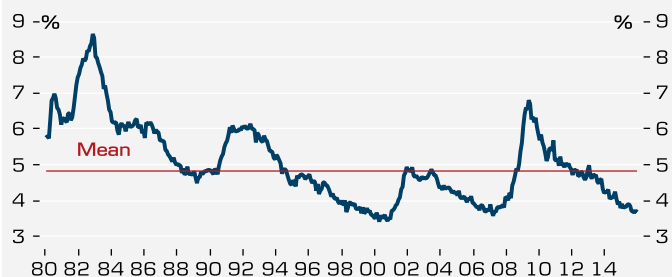
Source: Macrobond Financial, BLS

Long-term unemployment rate higher than average



Source: Macrobond Financial, BLS

Short-term unemployment rate very low



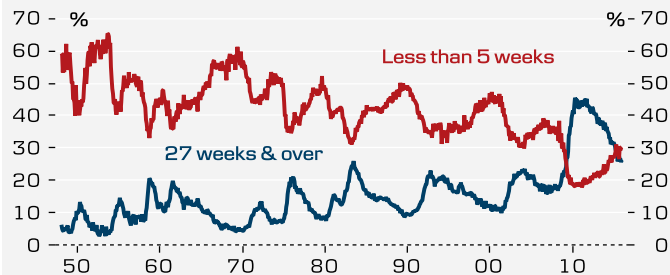
Source: Macrobond Financial, BLS

Long-term unemployment as % of total unemployed



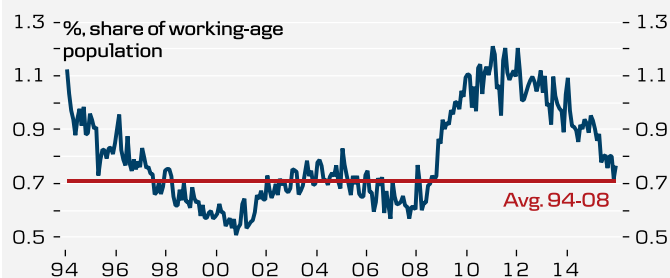
Source: Macrobond Financial, BLS

Distribution of duration of unemployment



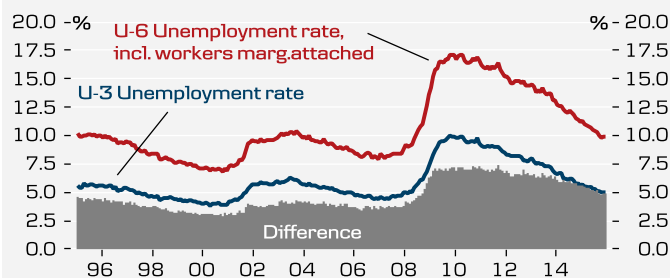
Source: Macrobond Financial, BLS

Marginally attached workers still a bit above average



Source: Macrobond Financial, BLS

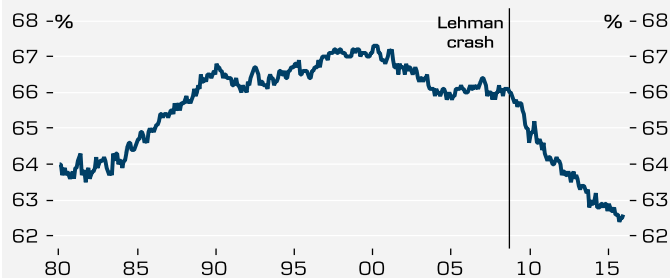
U6 unemployment rate vs U3 unemployment rate



Source: Macrobond Financial, BLS

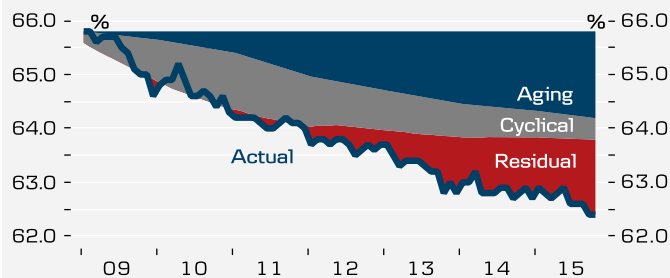
Participation

Participation rate, all



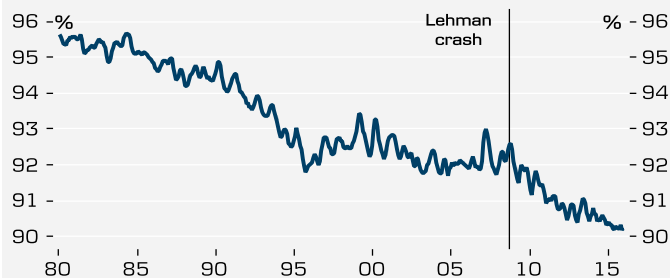
Source: Macrobond Financial, BLS

Fall in participation mostly due to aging effects



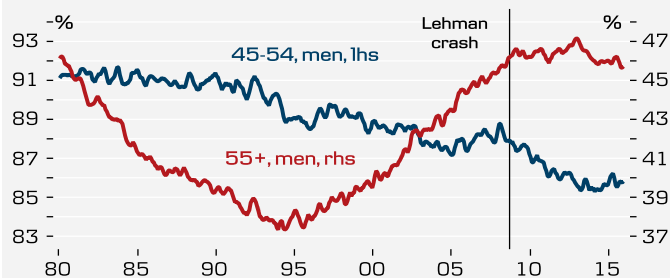
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

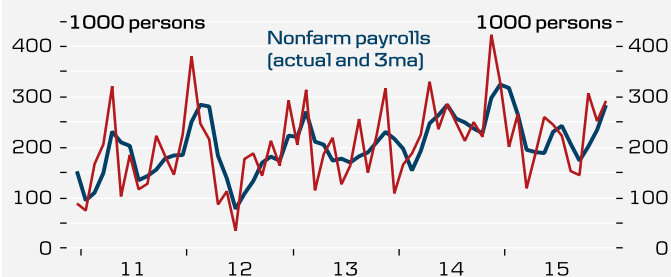
Participation rate, 45-54 and 55+, men



Source: Macrobond Financial, BLS

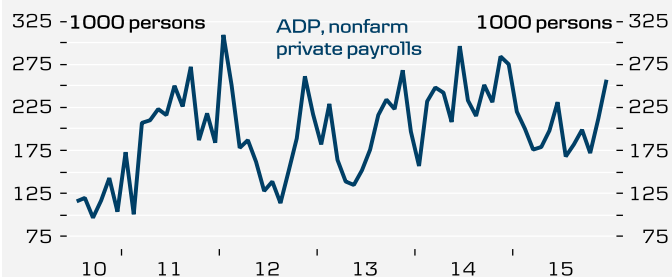
Employment measures

Non-farm payroll strong in Q4



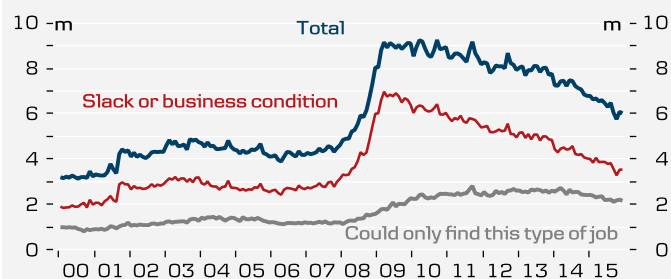
Source: Macrobond Financial, BLS

ADP private payrolls



Source: Macrobond Financial, ADP

Part-time employed for economic reasons



Source: Macrobond Financial, BLS

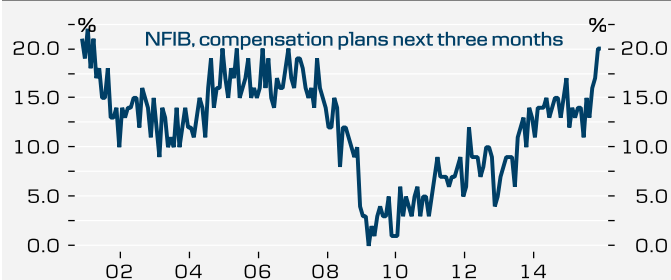
Employment to population ratio



Source: Macrobond Financial, BLS

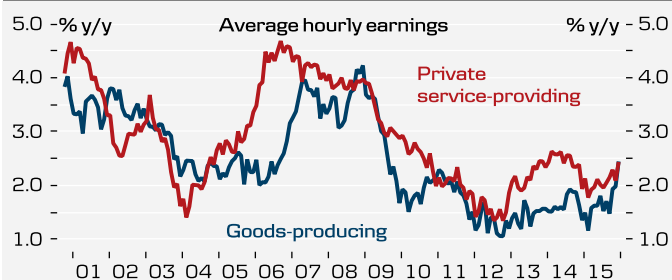
Wage growth and inflation

NFIB compensation plans



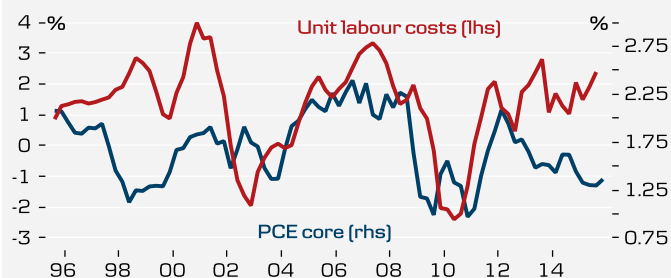
Source: Macrobond Financial, NFIB

Hourly earnings, production and non-supervisory



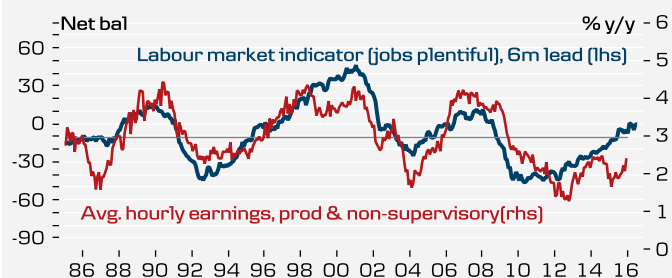
Source: Macrobond Financial, BLS

Unit labour costs is putting upward pressure on core inflation



Source: Macrobond Financial, BLS, Census, BEA

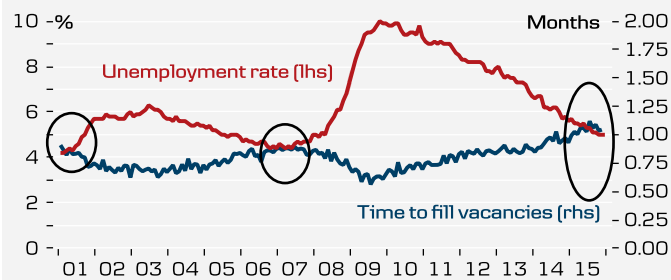
Worker confidence is slowly rising – will wages follow?



Source: Macrobond Financial, Conference Board, BLS

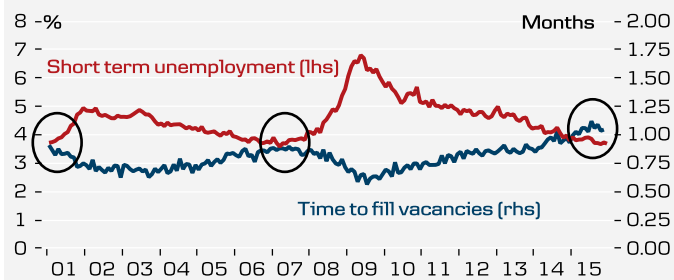
The employer's perspective

Unemployment and time to fill vacancies



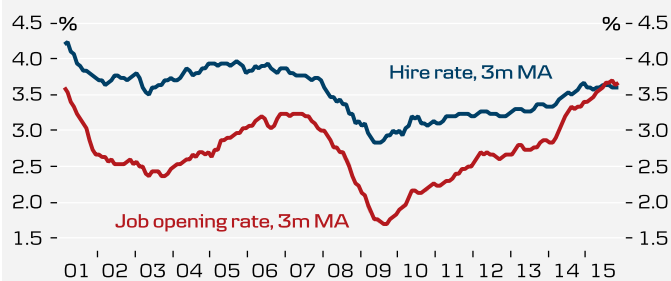
Source: Macrobond Financial, BLS

Short-term unemployment and time to fill vacancies



Source: Macrobond Financial, BLS

The rate of new job openings and hire rate (3M moving average)



Source: Macrobond Financial, BLS

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