

US Labour Market Monitor

Slower jobs growth but not a disaster

Jobs report preview

We estimate **non-farm payrolls increased 160,000 in February**, below the current consensus of 195,000. Job growth is driven mainly by private service payrolls, which we estimate increased 151,000 in February, up from the 118,000 increase in January. We see mixed signals from the service sector, as strong retail sales from January indicate that the domestic part of the US economy is still in good shape and consumer confidence remains at a healthy level despite the decline in recent months. In contrast, the Markit Service PMI came out very weak last week, raising fears that service sector growth is cooling along with the weakness in the manufacturing sector. **In terms of the unemployment rate, we expect it to remain unchanged at 4.9%.**

We estimate **manufacturing payrolls declined 15,000 in February**. Over the past few months, we have seen ISM manufacturing falling to levels around 48, without a correction in manufacturing employment, which has increased 45,000 in total over the past three months. Hence, we expect to see a payback in jobs growth in February. We estimate **construction jobs growth slowed to 15,000 in February**. Weather conditions in November and December were better than usual and we find it likely that some construction work has been pushed forward to 2015, leaving a lower than usual workload at the beginning of 2016.

Average hourly earnings have moved higher lately, which has bolstered the Fed's confidence in the inflation outlook. However, the latest decline in both market and survey-based inflation expectations has spooked some at the Fed. **We believe that the continued progress in the labour market will keep wage inflation trending higher but if February data shows stagnating or even slowing wage growth, it will further reduce the chance that the Fed will proceed with the hiking cycle anytime soon.**

General conditions of the labour market

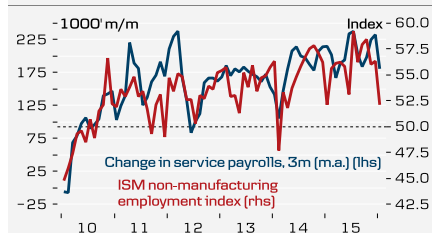
The labour market has tightened significantly over the past year and the uptick in (real) wage inflation has been welcomed by the Federal Reserve. As labour productivity remains low, we have seen **a significant increase in unit labour costs, putting upward pressure on inflation**. Actual core inflation has surprised on the upside lately, with the **core PCE (the Fed's preferred measure of inflation) now at 1.7% y/y**. On the other hand, **the uptick in the labour force participation rate since September and the corresponding increase in the labour force is taking some of the pressure to tighten monetary policy off the Fed**. If labour force growth continues at the current pace over the coming months, it should ease the upward pressure on wages. **We stick to our view that the Fed will take a 'wait-and-see' approach and stay on hold until the September FOMC meeting.**

Danske Bank forecasts (February)

	DB	Consensus	Prior
Non-farm Payrolls	160	195	151
-Private	151	185	158
-Manufacturing	-15	0	29
-Service	151	-	118
-Construction	15	-	18
-Mining and logging	-	-	-7
-Government	9	-	-7
Unemployment rate	4.9%	4.9%	4.9%
Avg. hourly earnings	-	2.5%	2.5%

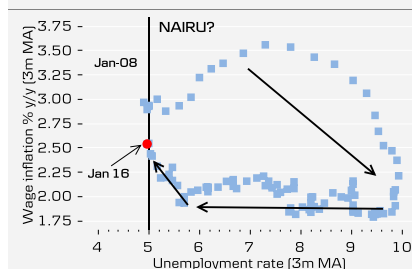
Source: Macrobond Financial, Danske Bank
Markets calculations

Growth in service employment to slow



Source: BLS, ISM

Phillips curve key to understanding Fed's thinking



Source: BLS, Danske Bank Markets

Senior Analyst

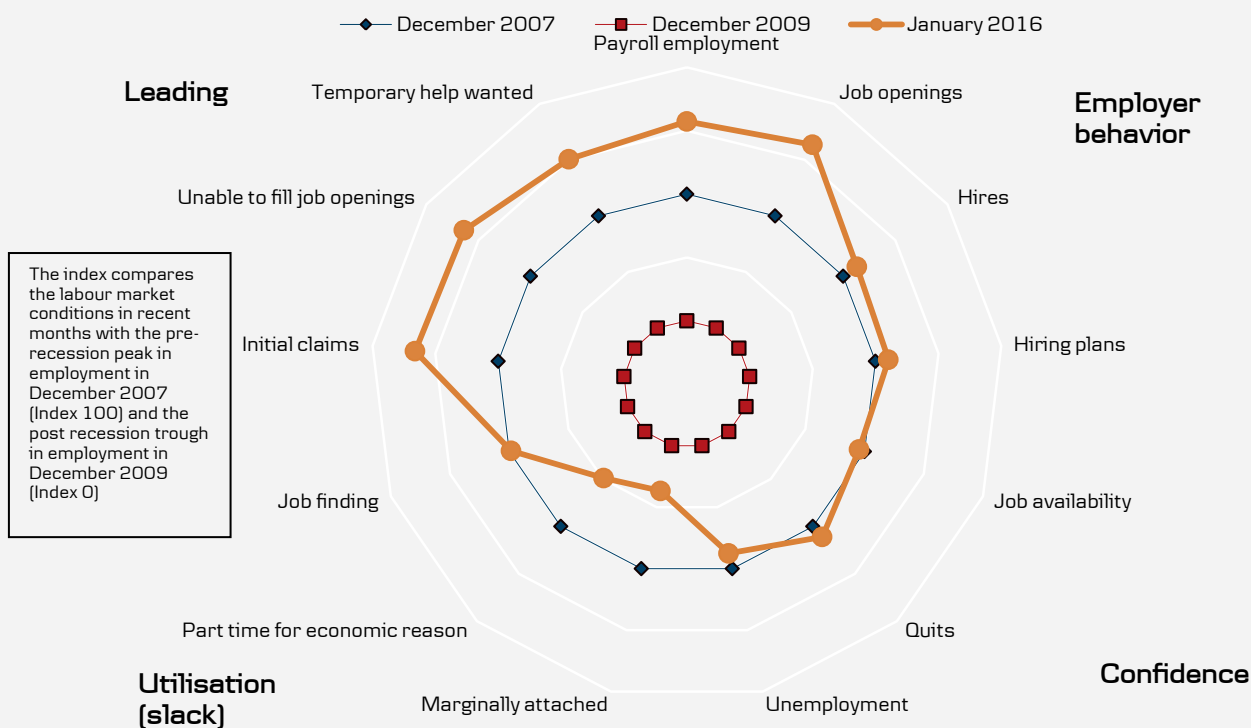
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US labour market in one chart

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



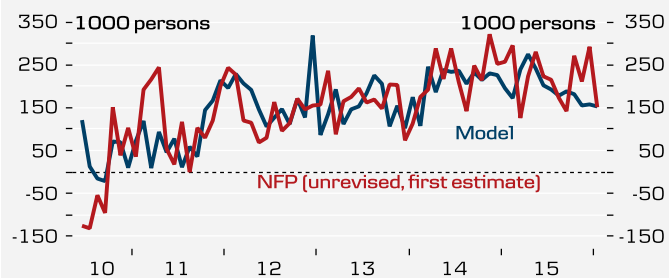
Note: The diagram shows the level of tightness of different US labour market key figures at different times, compared with the level of the same figures in December 2007 (index= 100) and December 2009 (index = 0). Counter cyclical figures (unemployment rate, jobless claims, marginally attached and work 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

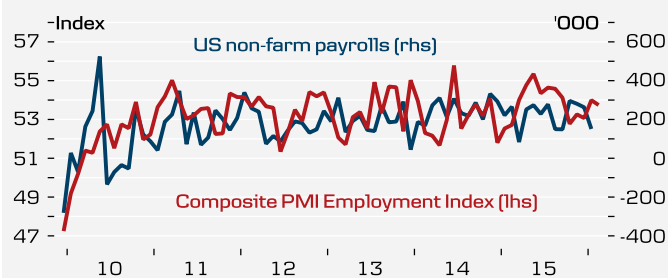
Models and leading indicators

Our model has underestimated employment growth



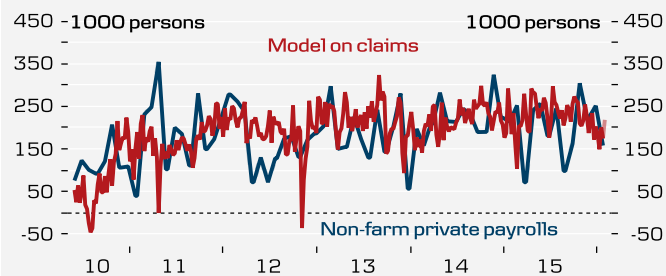
Source: Macrobond Financial, Danske Bank Markets calculations

PMI employment suggests stable employment growth of around 200,000



Source: Macrobond Financial, ISM, BLS

Initial jobless claims model suggests slower job growth



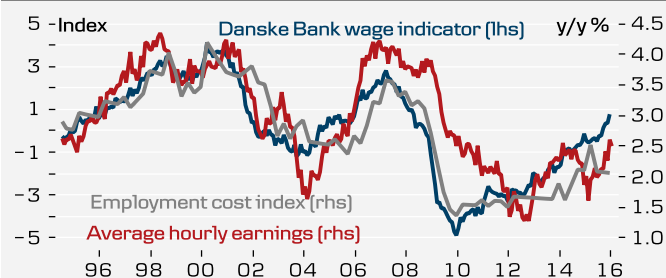
Source: Macrobond Financial, US Department of Labor

Small business hiring plans over next three months



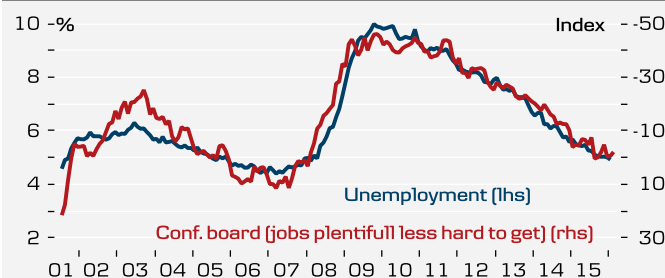
Source: Macrobond Financial, NFIB

Danske Bank wage indicator and wage inflation



Source: BLS, Danske Bank Markets

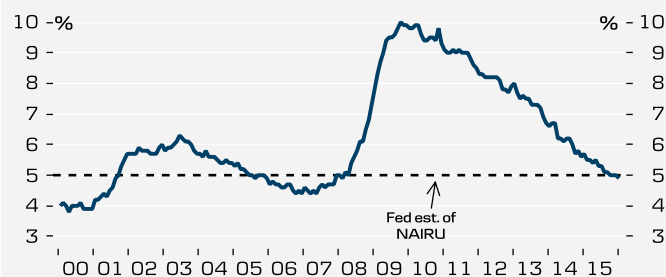
Worker confidence and unemployment rate



Source: BLS, Conference Board

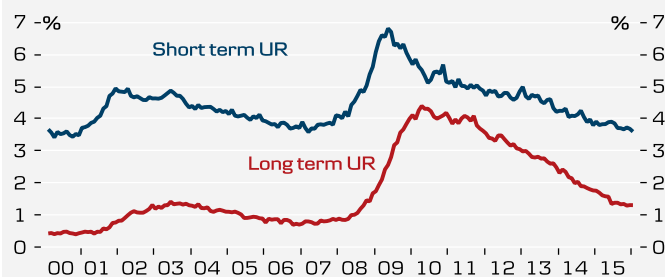
Unemployment measures

Unemployment rate at NAIUR



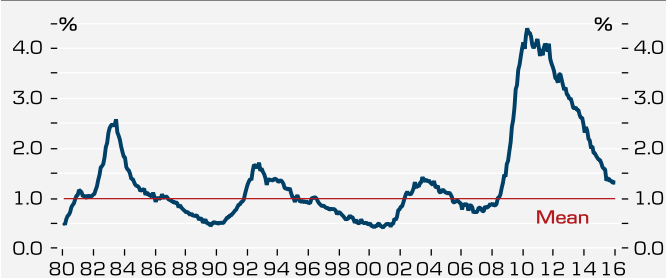
Source: Macrobond Financial, FOMC, BLS

Unemployment decomposed by duration



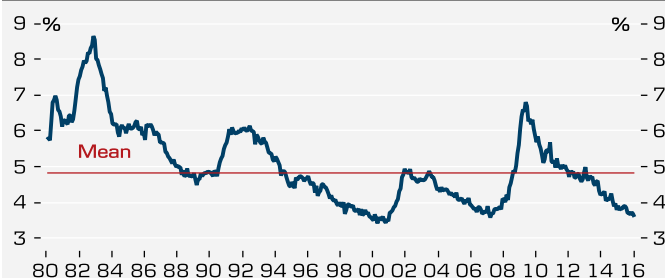
Source: Macrobond Financial, BLS

Long-term unemployment rate higher than average



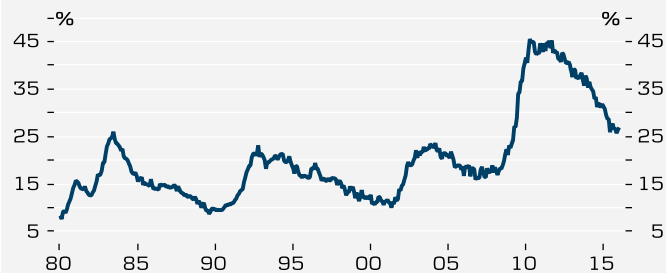
Source: Macrobond Financial, BLS

Short-term unemployment rate very low



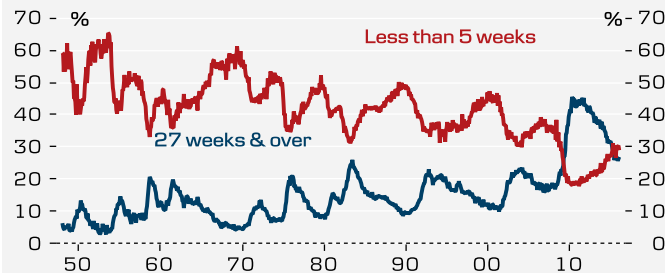
Source: Macrobond Financial, BLS

Long-term unemployment as % of total unemployed



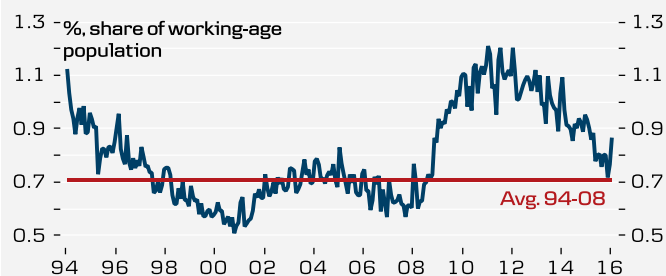
Source: Macrobond Financial, BLS

Distribution of duration of unemployment



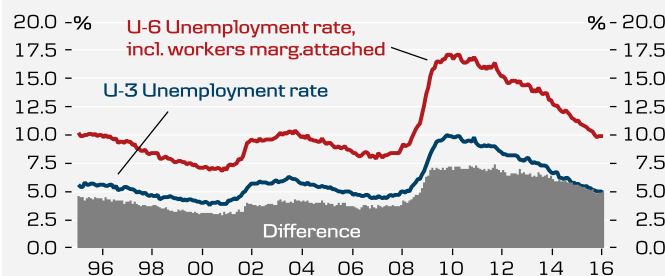
Source: Macrobond Financial, BLS

Marginally attached workers still a bit above average



Source: Macrobond Financial, BLS

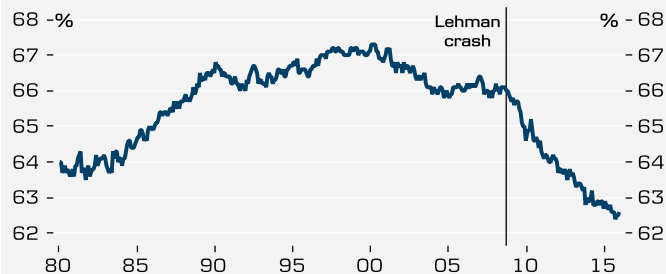
U6 unemployment rate vs U3 unemployment rate



Source: Macrobond Financial, BLS

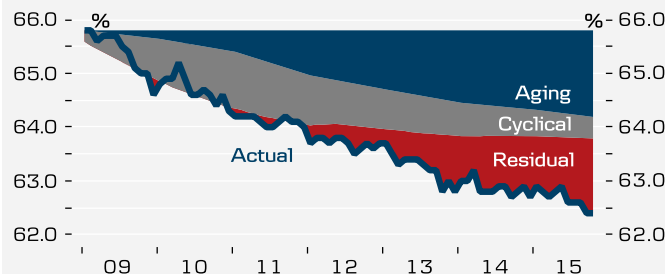
Participation

Participation rate, all



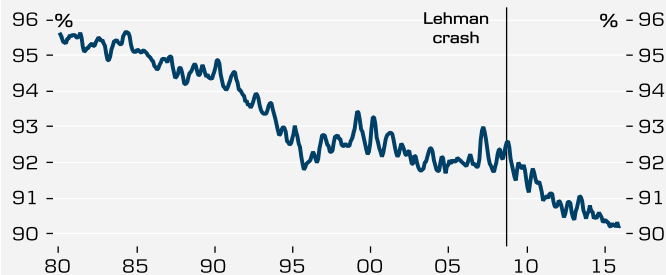
Source: Macrobond Financial, BLS

Fall in participation mostly due to aging effects



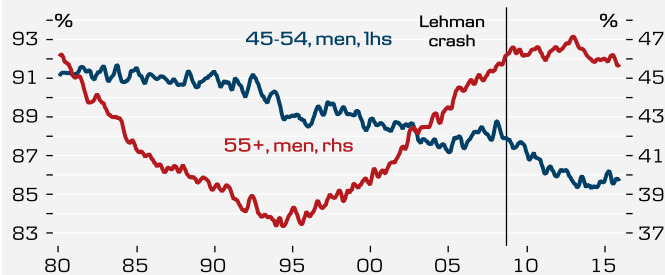
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

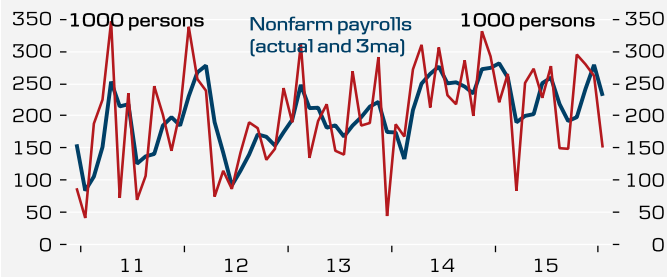
Participation rate, 45-54 and 55+, men



Source: Macrobond Financial, BLS

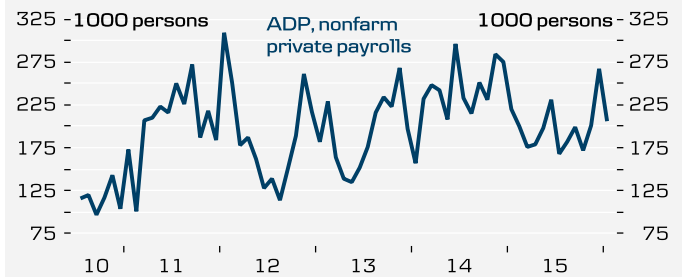
Employment measures

Non-farm payroll strong in Q4



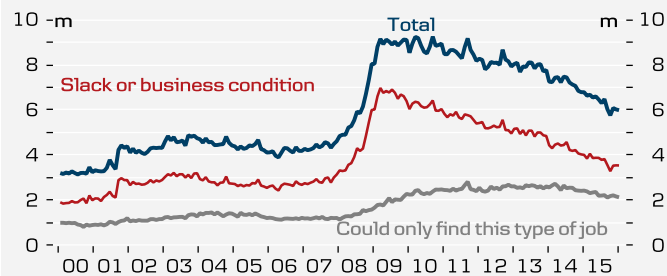
Source: Macrobond Financial, BLS

ADP private payrolls



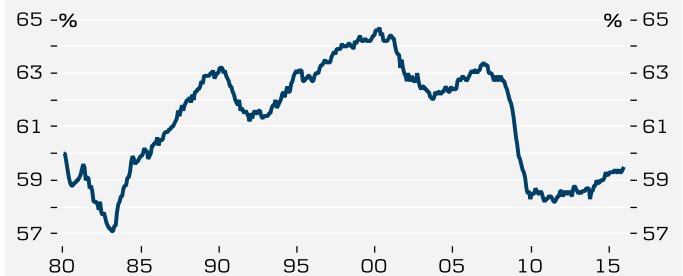
Source: Macrobond Financial, ADP

Part-time employed for economic reasons



Source: Macrobond Financial, BLS

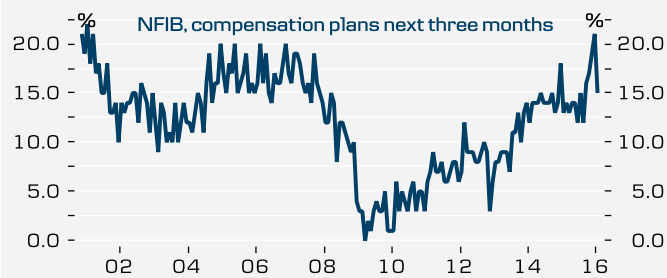
Employment to population ratio



Source: Macrobond Financial, BLS

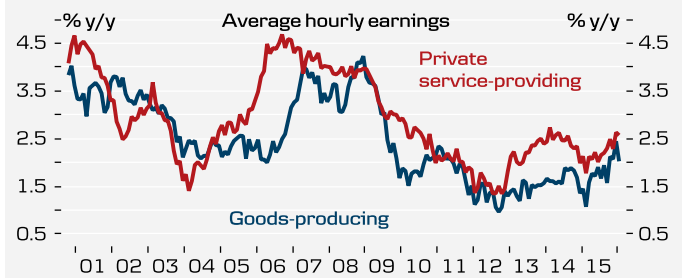
Wage growth and inflation

NFIB compensation plans



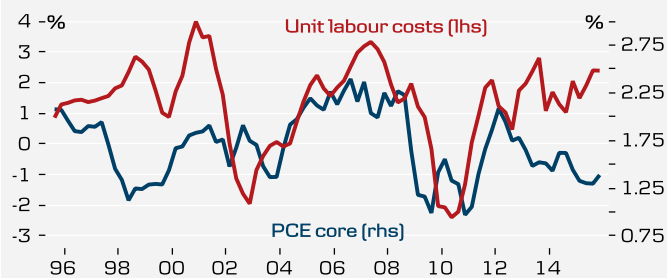
Source: Macrobond Financial, NFIB

Hourly earnings, production and non-supervisory



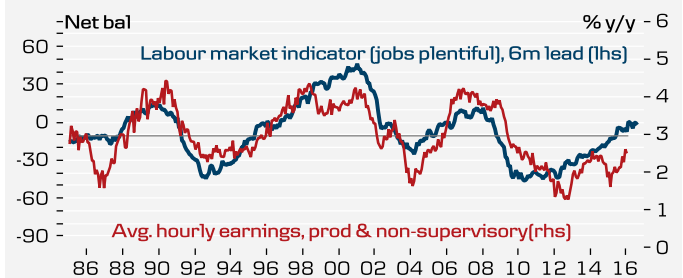
Source: Macrobond Financial, BLS

Unit labour costs is putting upward pressure on core inflation



Source: Macrobond Financial, BLS, Census, BEA

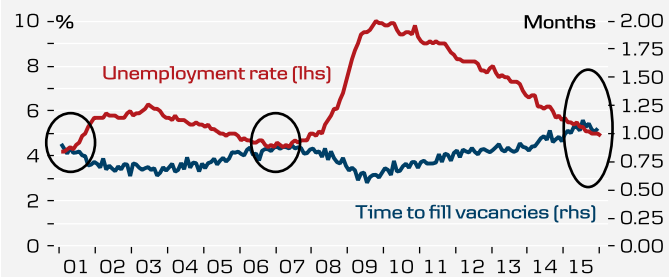
Worker confidence is slowly rising - will wages follow?



Source: Macrobond Financial, Conference Board, BLS

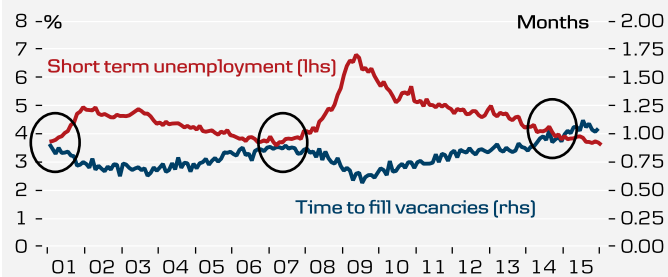
The employer's perspective

Unemployment and time to fill vacancies



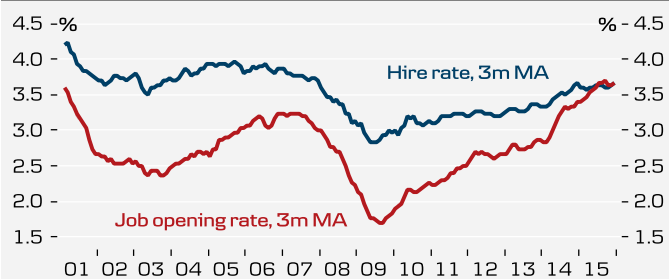
Source: Macrobond Financial, BLS

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

Disclosures

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The authors of the research report are Signe Roed-Frederiksen, Senior Analyst, and Andreas Mey Kjoller, Assistant Analyst.

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