

03 November 2015

US labour market monitor

October job growth to keep December hike in play

Job report preview

- Our models suggest job growth in October of 170,000 – below the mid-year pace but still enough to put additional downward pressure on the unemployment rate.
- We estimate that the manufacturing sector shed 11,000 jobs in September, as the sector remains under pressure from a strong US dollar and the employment index in the ISM manufacturing survey dipped to a six-year low in October. We look for government employment to increase by 10,000 and construction employment to pick up pace again and add 30,000 jobs.
- In terms of the unemployment rate, we estimate the rate stayed unchanged at 5.1% in October but forecast it will head below 5% by year-end.
- The Q3 15 employment cost index showed a rebound in wage growth, which put the pace of wage gains in line with that of last year. So far, wage growth is not showing any clear signs of acceleration despite the substantial decline in labour market slack. The same is true for the employment reports' measure of wages, the average hourly earnings index. A pick-up in wage inflation is important as it would help to reassure the doves of the FOMC that the labour market is indeed running tight.

General condition of the US labour market

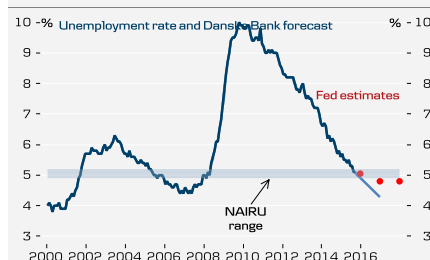
- The August and September employment reports showed a slowdown in job growth, with the three-month average pace of job growth at 167,000 in September down from 201,000 in August. As we highlighted in the labour market monitor for September (*US labour market monitor: Slower job growth not an obstacle for the Fed*, 28 September 2015), we do not think that a slowdown of this magnitude is an obstacle for a coming Fed hike. Currently, potential labour force growth, under a positive assumption about a rebound in the labour participation rate, is around 150,000 per month and even lower if the participation rate fails to increase.
- This means that with job growth at an average of 170,000 per month in the coming six months, the unemployment rate will reach the low end of the Fed's projected NAIRU range (4.9%) early next year and continue lower thereafter. This is on the assumption that the labour force participation rate will show a temporary rebound next year. If an increase in the labour force participation rate fails to materialise, the unemployment rate would significantly undershoot the Fed's NAIRU range by the spring.
- The October FOMC statement was a reminder that a December Fed funds rate hike should not be dismissed. We continue to expect the first rate hike in January next year, primarily because of the weakness in the US manufacturing sector, which we think will keep the Fed in wait-and-see mode at the December FOMC meeting. We believe that the fast reduction in labour market slack next year will prompt the Fed to tighten monetary policy faster than currently priced in by markets.

Danske Bank forecasts (October)

	DB	Consensus	Prior
Non-farm Payrolls	170	184	142
-Private	160	168	118
-Manufacturing	-11	-5	-9
-Service	141	-	131
-Construction	30	-	8
-Mining and logging	-	-	-12
-Government	10	16	24
Unemployment rate	5.1%	5.0%	5.1%

Source: Macrobond Financial, Danske Bank
Markets calculations

Unemployment rate to undershoot FOMC projections



Source: Macrobond Financial, BLS, Danske Bank
Markets

Wage growth lagging



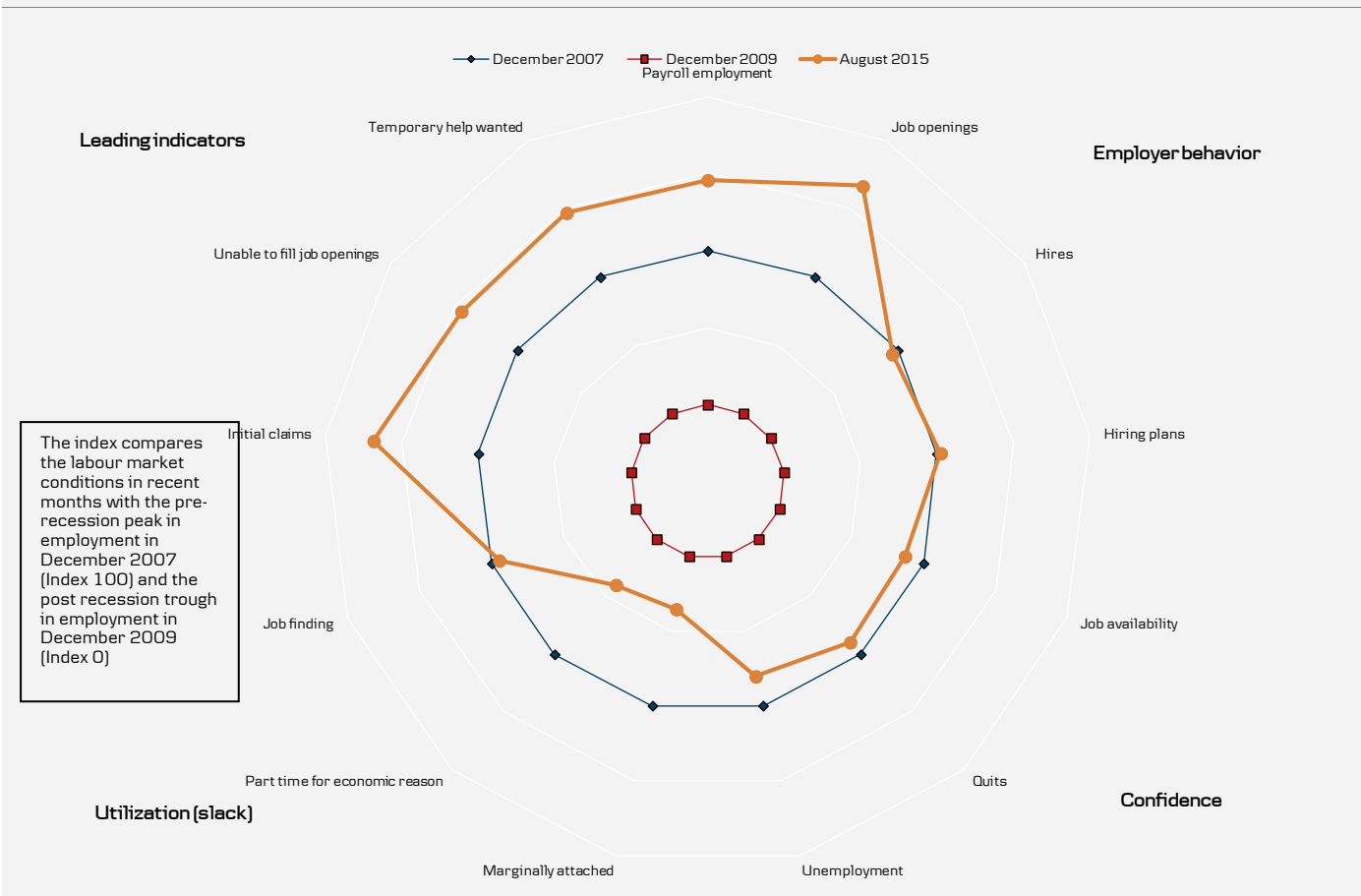
Source: Macrobond Financial, BLS, BEA, Danske Bank
Markets, NFIB

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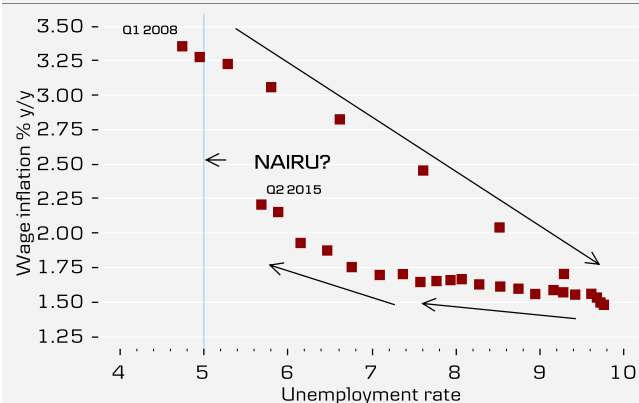
US labour market in one chart

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



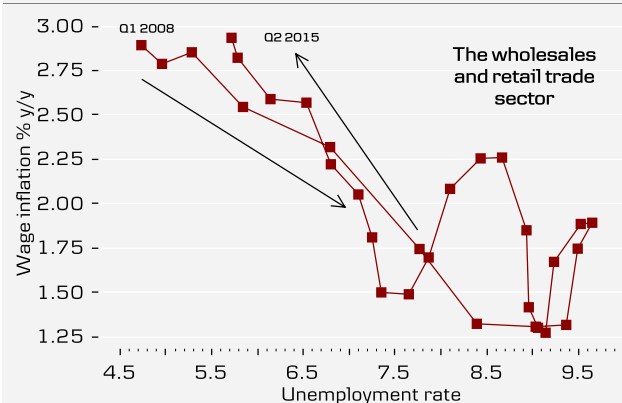
Note: The diagram shows the level of tightness of different US labour market key figures at different times, compared with the level of the same figures in December 2007 (index=100) and December 2009 (index = 0). Counter cyclical figures (unemployment rate, jobless claims, marginally attached and work 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. JOLTS data for December is an average of October and November data. Source: BLS (JOLTS), Macrobond Financial

Wage inflation has lagged improvement of unemployment rate ...



Source: Macrobond Financial, Danske Bank Markets calculations

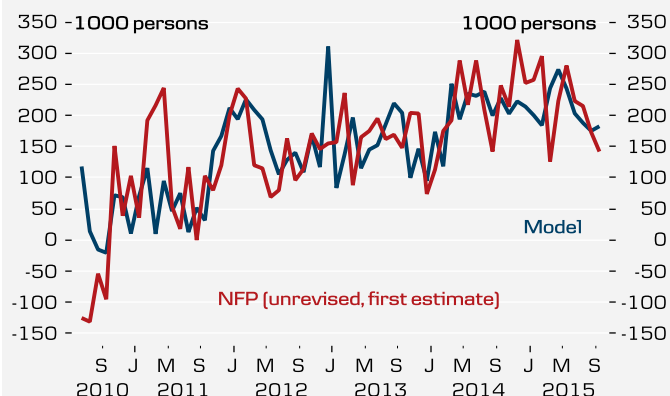
... but relationship more normal in sectors with flexible wages



Source: Macrobond Financial, Danske Bank Markets calculations

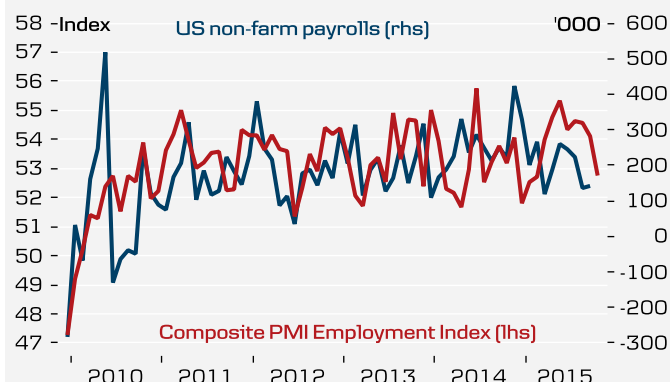
Models and leading indicators

Payrolls model



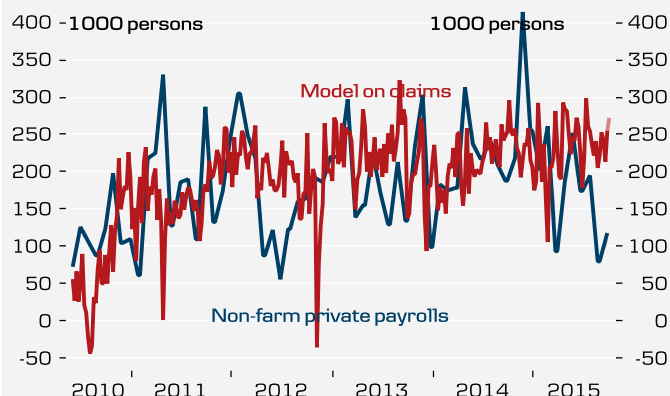
Source: Macrobond Financial, Danske Bank Markets calculations

PMI employment suggests stronger job growth



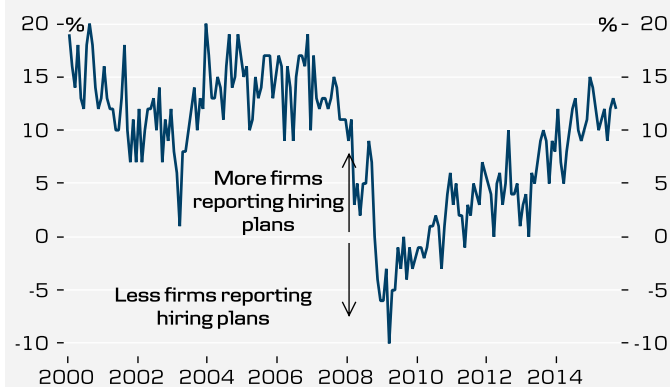
Source: Macrobond Financial, ISM, BLS

Initial jobless claims model suggests better job growth



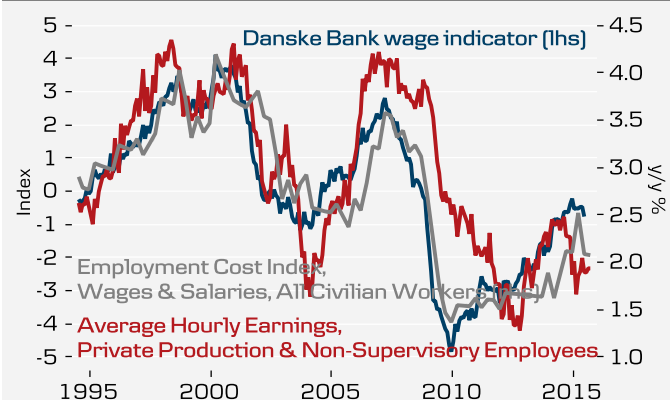
Source: Macrobond Financial, U.S. Department of Labor

Small business hiring plans next three months



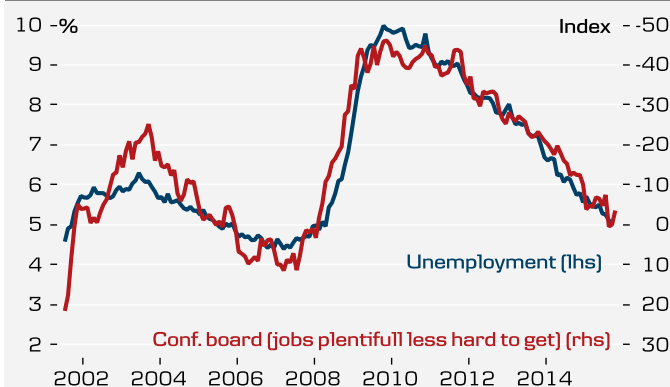
Source: Macrobond Financial, NFIB

Danske Bank wage indicator and wage inflation



Source: Macrobond Financial, Danske Bank Markets

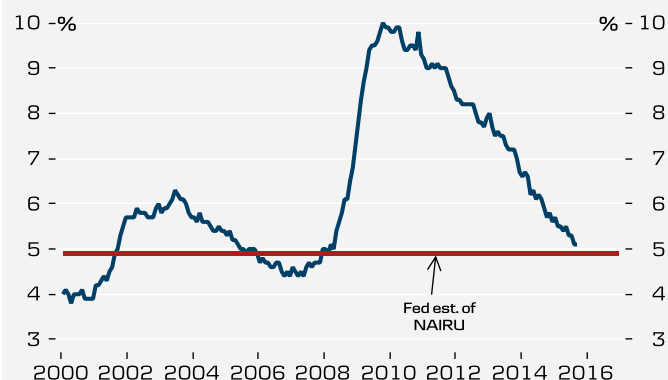
Worker confidence and unemployment rate



Source: Macrobond Financial

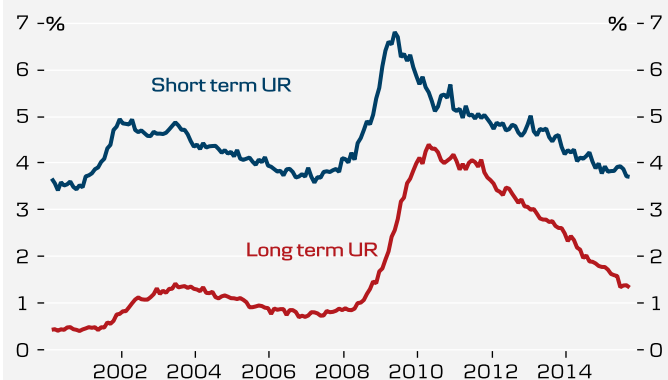
Unemployment measures

Unemployment rate



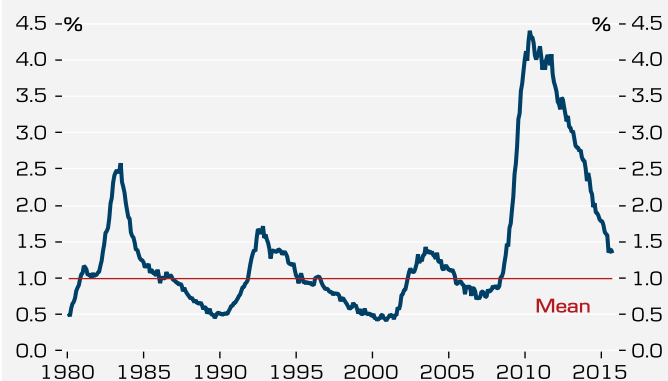
Source: Macrobond Financial, FOMC, BLS

Unemployment broken down by duration



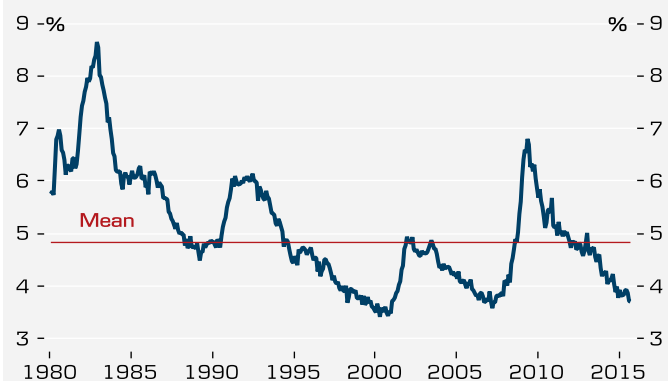
Source: Macrobond Financial, BLS

Long-term unemployment rate



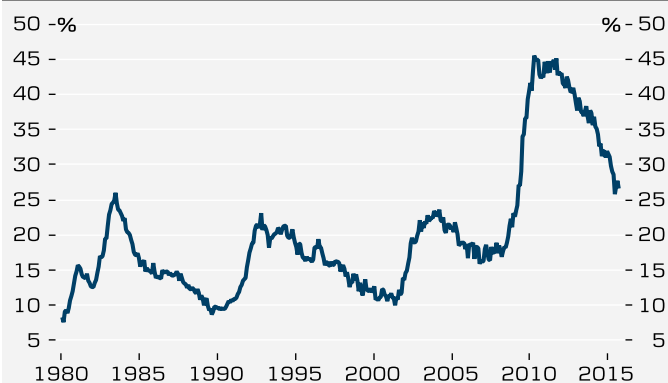
Source: Macrobond Financial, BLS

Short-term unemployment rate



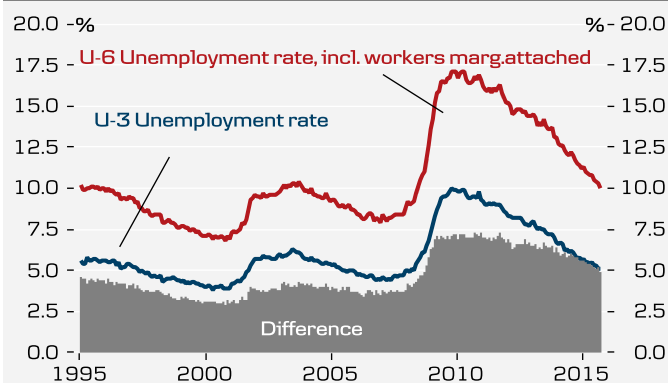
Source: Macrobond Financial, BLS

Long-term unemployment as % of total unemployed



Source: Macrobond Financial, BLS

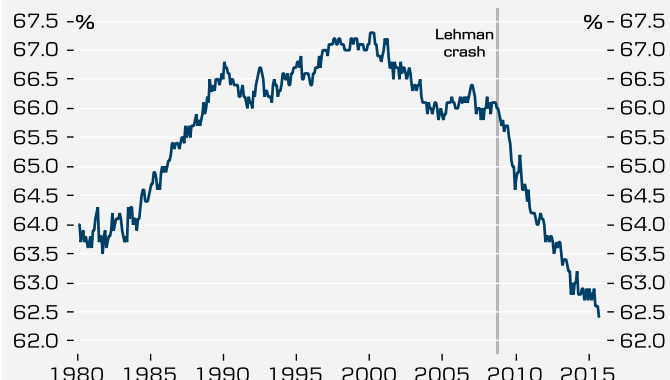
Marginally attached workers



Source: Macrobond Financial, BLS

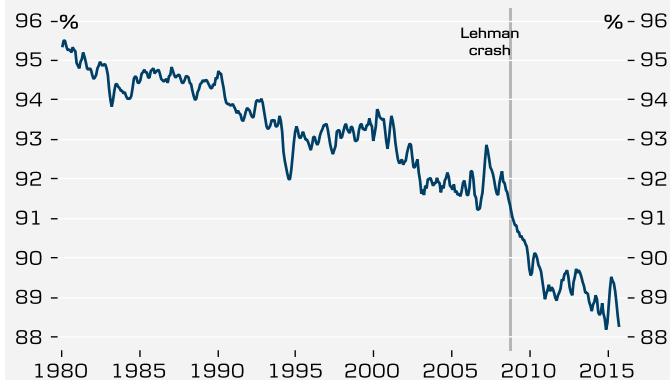
Participation

Participation rate, all



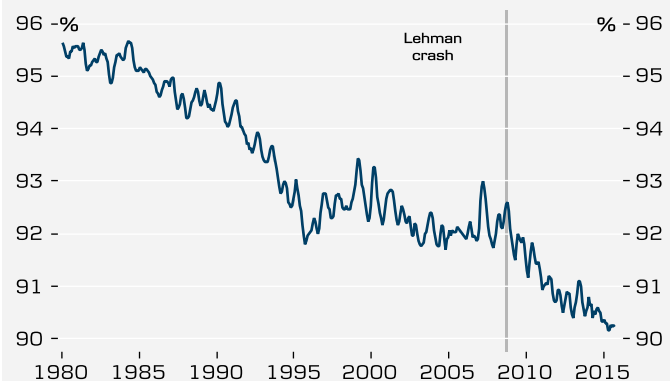
Source: Macrobond Financial, BLS

Participation rate, 25-34, men



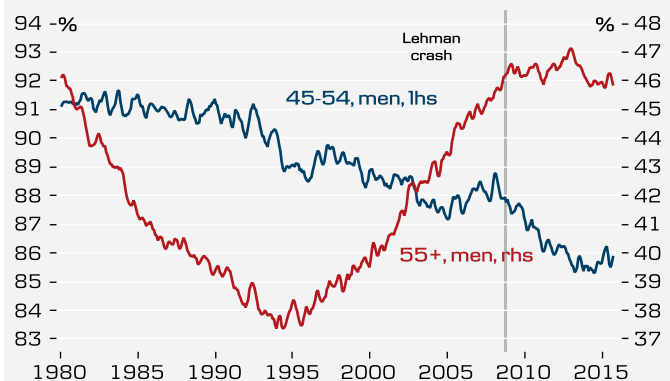
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

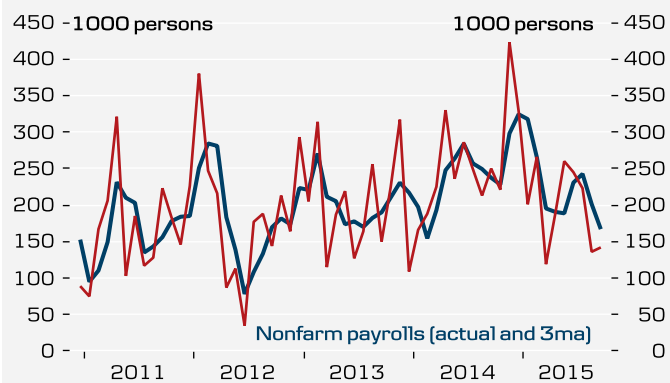
Participation rate, 45-54 and 55+, men



Source: Macrobond Financial, BLS

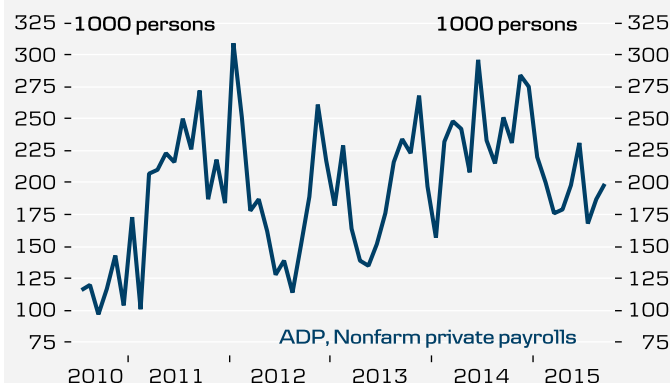
Employment measures

Non-farm payroll



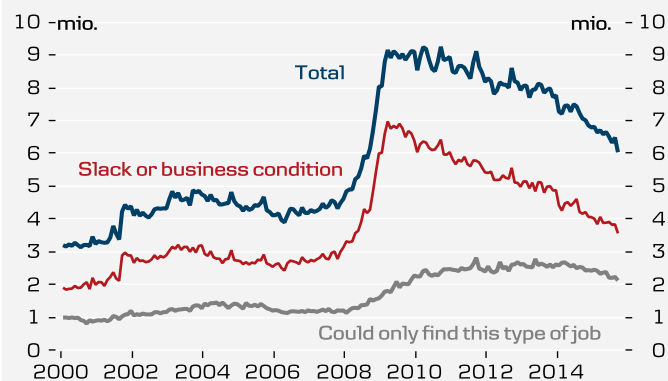
Source: Macrobond Financial, BLS

ADP private payrolls



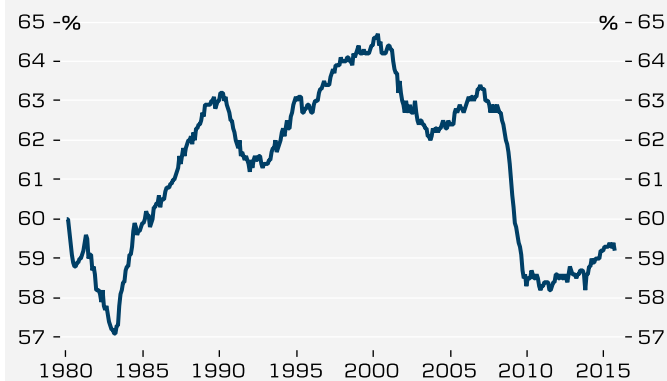
Source: Macrobond Financial, ADP

Part-time employed for economic reasons



Source: Macrobond Financial, BLS

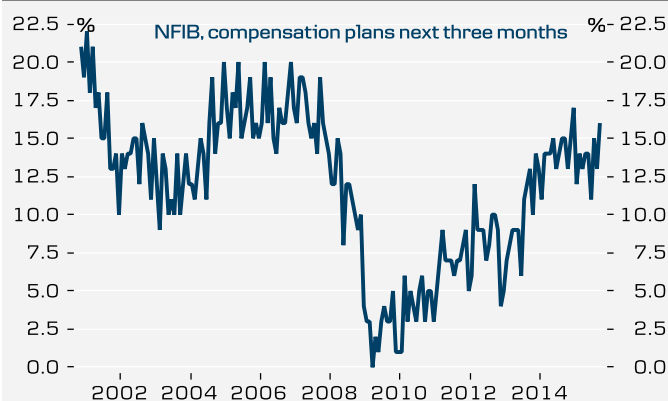
Employment to population ratio



Source: Macrobond Financial, BLS

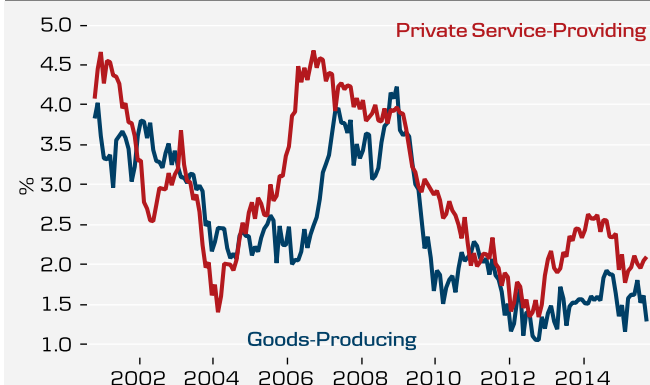
Wage growth and inflation

NFIB compensation plans



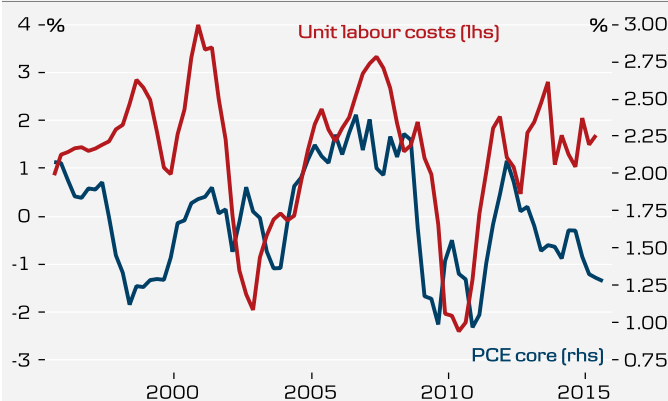
Source: Macrobond Financial, NFIB

Hourly earnings, production and non-supervisory



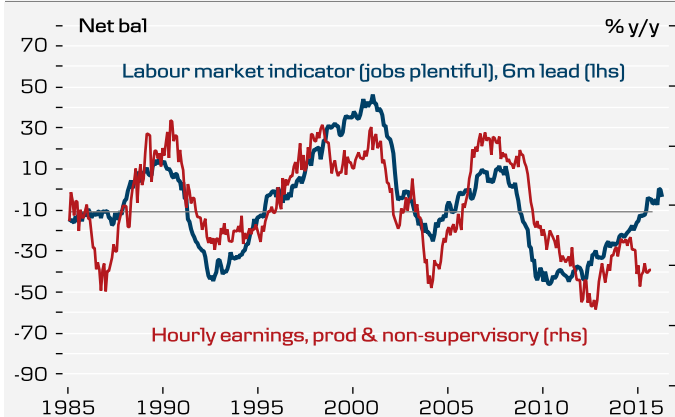
Source: Macrobond Financial, BLS

Unit labour costs putting upward pressure on core inflation



Source: Macrobond Financial, BLS, Census, BEA

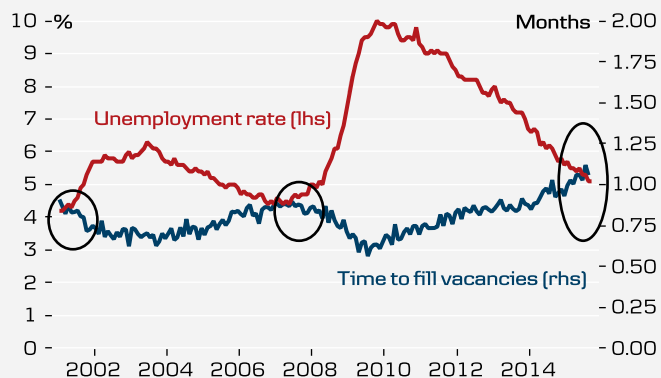
Worker confidence is slowly rising – will wages follow?



Source: Macrobond Financial, Conference Board, BLS

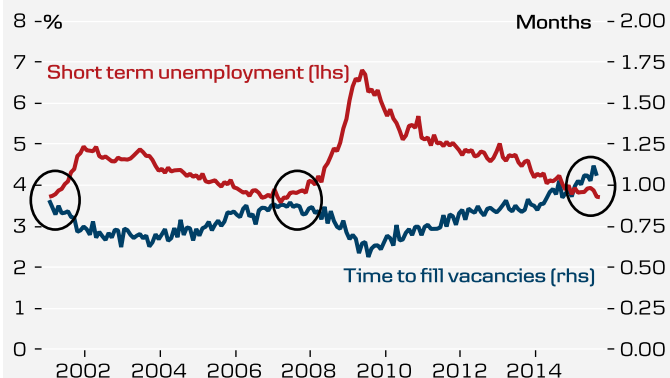
The employer's perspective

Unemployment and time-to-fill vacancies



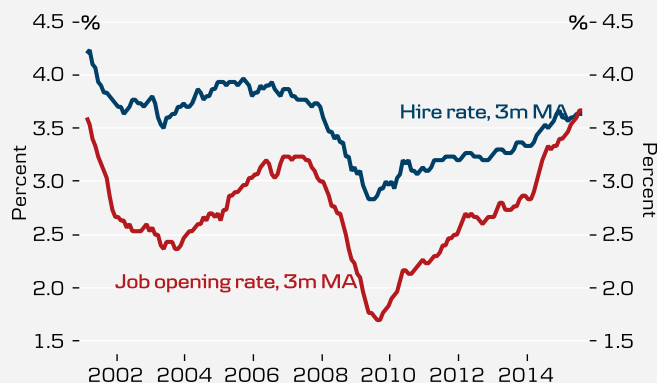
Source: Macrobond Financial, BLS

Short-term unemployment and time-to-fill vacancies



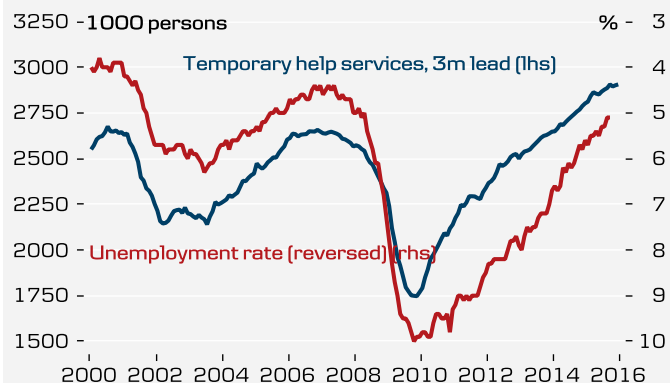
Source: Macrobond Financial, BLS

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



Source: Macrobond Financial, BLS

Temporary employment and unemployment



Source: Macrobond Financial, BLS

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