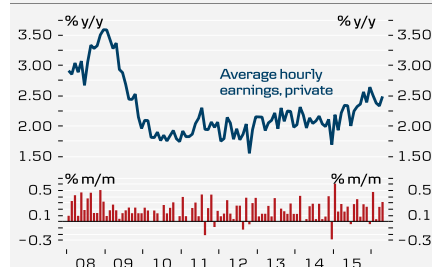


Flash Comment US

Weakest job growth in seven months closes the door for a June hike

- As indicated by both the ADP jobs report and ISM/Markit PMI surveys, only 160,000 new jobs were added in April. This was the lowest in seven months and well-below the trend we have seen over the past year. The two-month net revisions were -19,000. The slowdown in employment growth comes after weak GDP growth in Q1. **Employment is usually a good indicator of the underlying growth in the economy so it is not a good sign that we now have a combination of slower GDP growth and slower employment growth.** That said we are not worried yet as nonfarm payrolls can fluctuate considerably from month-to-month – but that could change if we do not see a rebound in the coming reports. The unemployment rate was unchanged at 5.0%.
- Recently four Fed members said the door is open to a hike in June, but we think the weak employment growth in April has closed it.** Bullard, Williams, Kaplan and Lockhart all said in separate remarks that the Fed may hike at the June FOMC meeting but that it depends on incoming data. **While their comments are interesting, we think it is important to remember that most of the voting FOMC members have a dovish stance on monetary policy.** In addition, Fed chair Yellen emphasised the downside risks to the economy in her last speech.
- In our view, the Fed will wait with hiking until the FOMC meeting in September,** which would give it more time to judge incoming data and we will also be past the UK's EU referendum. A hike in June is priced with a probability of around 10% down from 20% a month ago, while a hike in September is priced with a probability below 40%.
- Manufacturing employment rose 4,000 – the first increase in two months. Manufacturing employment fell by 45,000 in February and March combined, the biggest two-month fall since the financial crisis. Although 4,000 is a very small number, it is still positive that manufacturing employment is not falling anymore at least. **Together with the rebound in the ISM manufacturing index, it seems as if the worst is over for the manufacturing sector.** The weaker USD and stabilisation in China have helped.
- However despite the weak employment growth, there were also some good things in the jobs report.** Average hourly earnings rose by 0.3% m/m for the second consecutive month and the annual growth rate rose from 2.3% y/y to 2.5% y/y. While this is still subdued, wage inflation has been on an increasing trend for the last year as the slack in the labour market has diminished. In addition, average weekly hours rose from 34.4 to 34.5 and the underemployment rate declined to 9.7% from 9.8% previously.

Wage inflation is trending up



Source: BLS

Most voting FOMC members are dovish, in our view

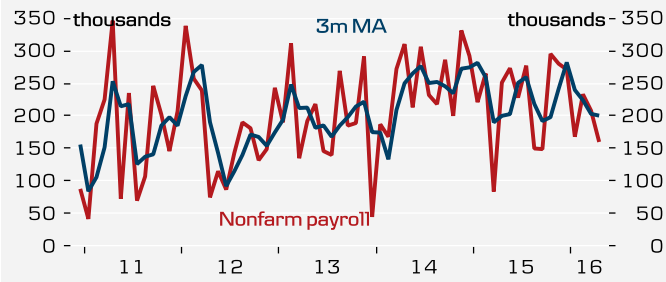
2016 year-end Fed funds rate (%)	# of hikes in 2016	2016 FOMC voting members
1.375	4	George
1.375	4	Lacker
1.375	4	Harker
1.375	4	Mester
1.125	3	Lockhart
1.125	3	Williams
1.125	3	Bullard
0.875	2	Powell (B)
0.875	2	S. Fischer (B)
0.875	2	Kaplan
0.875	2	Kashkari
0.875	2	Yellen (B)
0.875	2	Tarullo (B)
0.875	2	Brainard (B)
0.875	2	Dudley
0.875	2	Evans
0.625	1	Rosengren

Grey fill indicates voting right

Source: Danske Bank

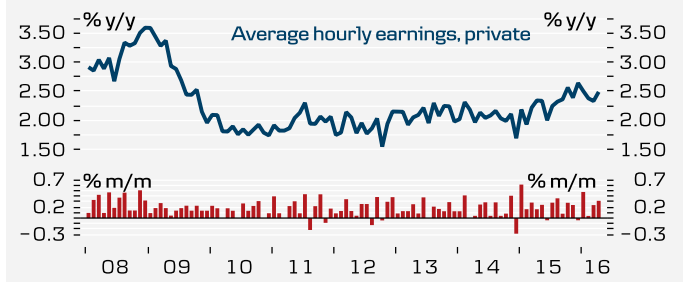
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Weak employment growth in April



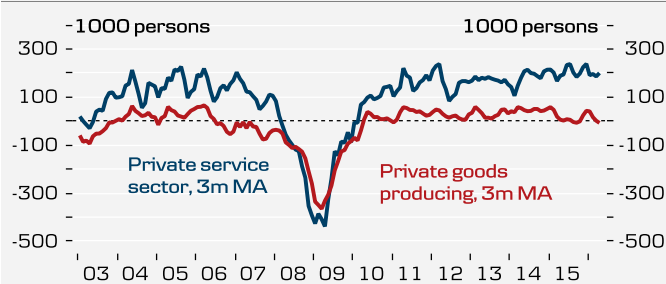
Source: BLS, Danske Bank Markets

Wage inflation is picking up but still modest



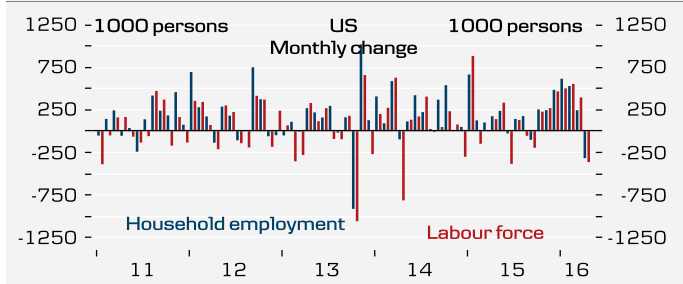
Source: BLS, Danske Bank Markets

Employment driven by services



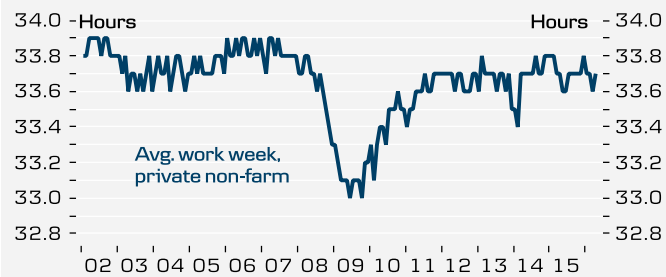
Source: BLS, Danske Bank Markets

Fall in household employment and labour force probably just volatility



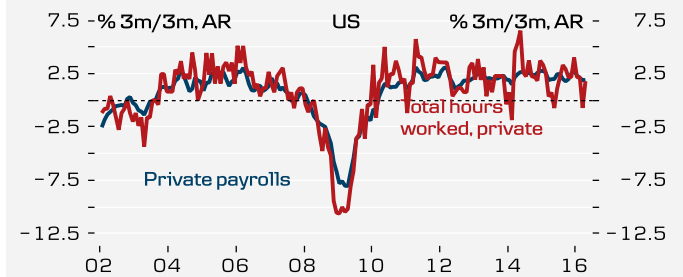
Source: BLS, Danske Bank Markets

Average weekly hours rose again



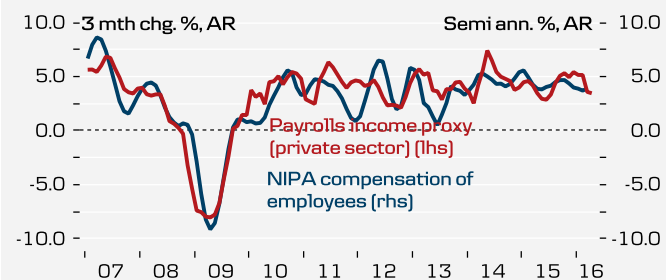
Source: BLS, Danske Bank Markets

Total hours worked vs payrolls



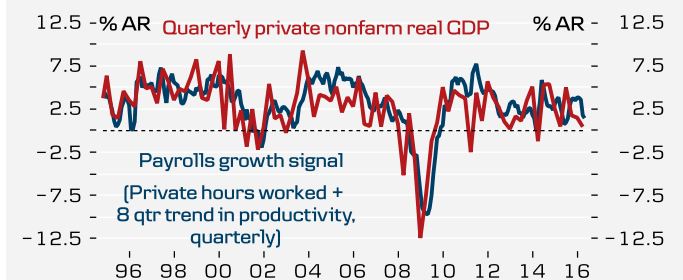
Source: BLS, Danske Bank Markets

Payrolls income proxy



Source: BLS, Danske Bank Markets

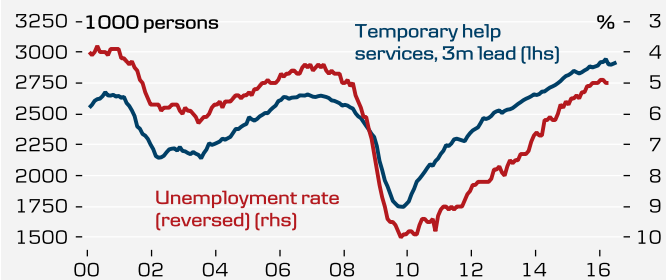
Payrolls GDP signal



Source: BLS, Danske Bank Markets

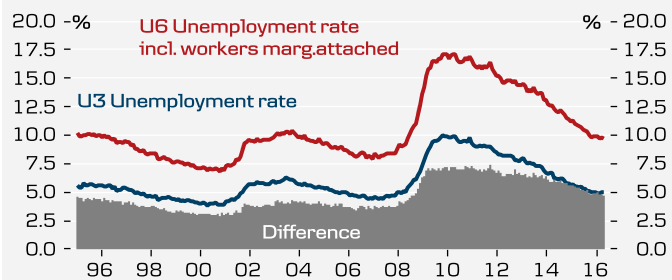
Unemployment

Temporary help services and unemployment



Source: BLS, Danske Bank Markets

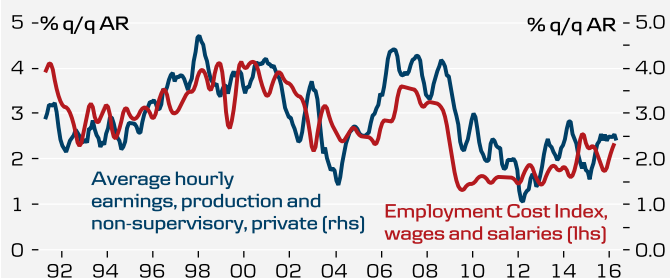
Unemployment narrow and broad measure



Source: BLS, Danske Bank Markets

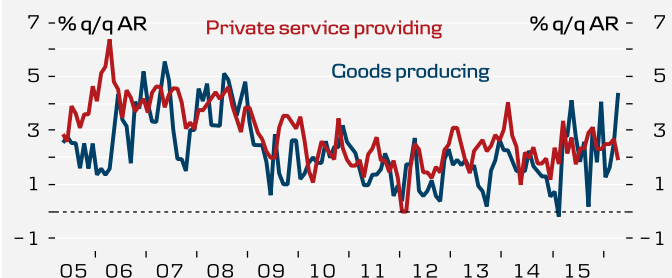
Wages

Average hourly earnings and Employment Cost Index



Source: Macrobond Financial, BEA

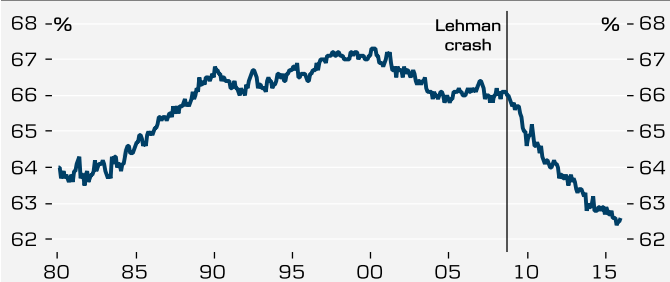
Hourly earnings, production and non-supervisory



Source: Macrobond Financial, BLS

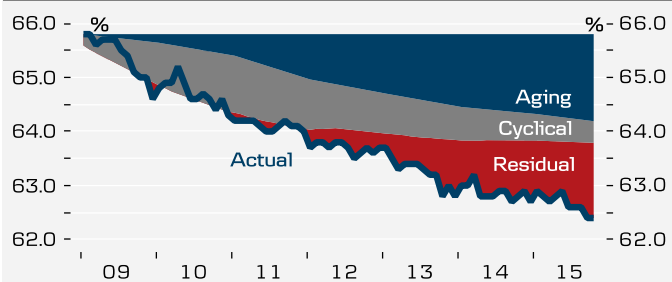
Participation

Participation rate, all



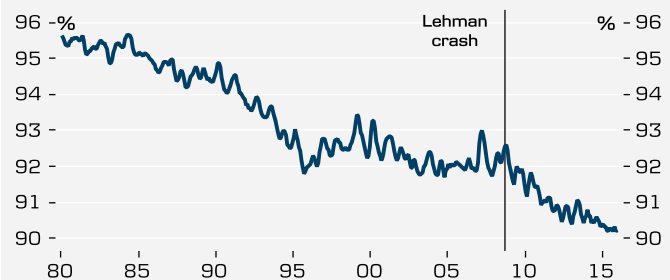
Source: Macrobond Financial, BLS

A modest cyclical rebound in the participation rate on the cards



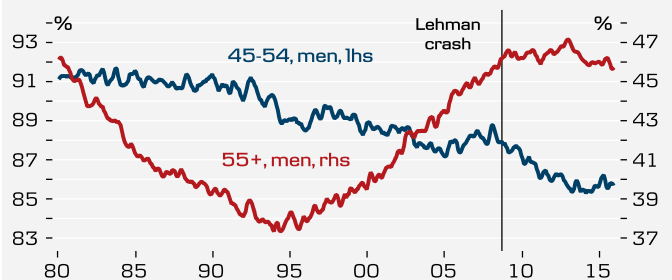
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

Participation rate, 45-54 and 55+, men



Source: Macrobond Financial, BLS

Disclosures

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The author of the research report is Mikael Olai Milhøj (Senior Analyst).

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