

Flash Comment

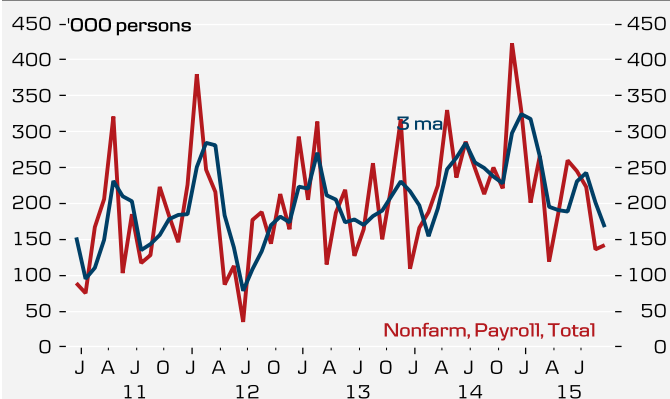
Weak labour market pushes first Fed rate hike to next year

- We have looked hard at the details of the September employment report, but find nothing positive to say. **Job growth was weak, average hourly earnings remained low, average weekly hours declined and although the unemployment rate was steady, this was because of a huge drop in the labour force.** Other labour market indicators have been more upbeat with initial and continuing jobless claims at low levels and the JOLTS survey showing a continued surge in the job opening rate. However, as we stated in our latest labour market monitor, job growth below 160,000 per month will be an obstacle for Fed rate hikes. Combined with continued anaemic wage inflation and our expectation that the ISM will linger around 50 in the coming months (see *Flash Comment: Another weak US ISM manufacturing index*) we think it **will be increasingly difficult for the Fed to hike rates in December.**
- **We now see Q1 next year as the most likely time for lift-off and expect the Fed to deliver a 25bp rate hike at the January FOMC meeting.** At that time we are likely to see the unemployment rate below 5%, the ISM should be past the bottom and Chinese data should have stabilised and recovered slightly. Our indicators also suggest that wage inflation should pick up, which will help the Fed feel more confident that remaining labour market slack is low. **The risk is that absent any signs of rising wage inflation, the Fed will once again take the cautious approach and wait until the March FOMC meeting to increase rates.**
- Overall, nonfarm payrolls increased 142,000 in September, below our expectations for 180,000 and consensus's 200,000. In addition, August job growth was revised down to 136,000 from 173,000 and July to 223,000 from 245,000. **This means that the 3-month average monthly job gain declined to 167,000 in September from above 200,000 in August.** Average weekly hours declined to 34.5 from 34.6 and aggregate hours worked were down 0.2% m/m. **Wage inflation is not showing much sign of increase despite the low unemployment rate.** Average hourly earnings were unchanged on the month in September but revised one notch up to 0.4% m/m in August, which leaves the annual wage inflation rate at 2.2%, only marginally higher than the 2% seen two years ago.
- The details of the report show that the slowdown in job growth is broad based. The goods-producing sector shed 13,000 jobs (manufacturing 9,000). Trade and transport job growth was down to 20,000 on average in September and August from over 50,000. Business service job growth has fallen to below 30,000 in the past two months from an average just below 60,000. Government employment, on the other hand, remained high with further job growth of 24,000 in September.

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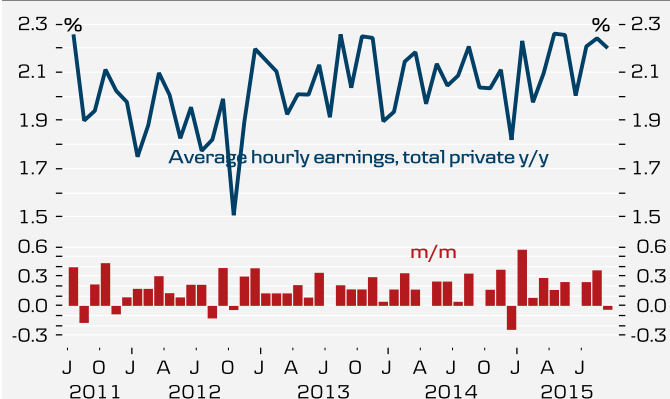
- The household survey showed a substantial drop in employment of 236,000 but the unemployment rate remained unchanged at 5.1% as the labour force dropped an even steeper 350,000. This also pushed the participation rate to 62.4% from 62.6% in August.
- The combined weakness in average hourly earnings and aggregate hours worked sent our payrolls income proxy down, suggesting less support for household income growth going forward and thereby household spending although lower gasoline prices should cushion the blow.

Nonfarm payrolls



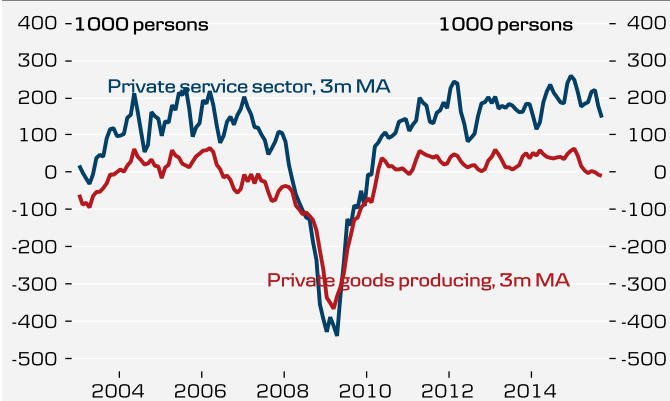
Source: BLS and Danske Bank Markets

Average hourly earnings, total private



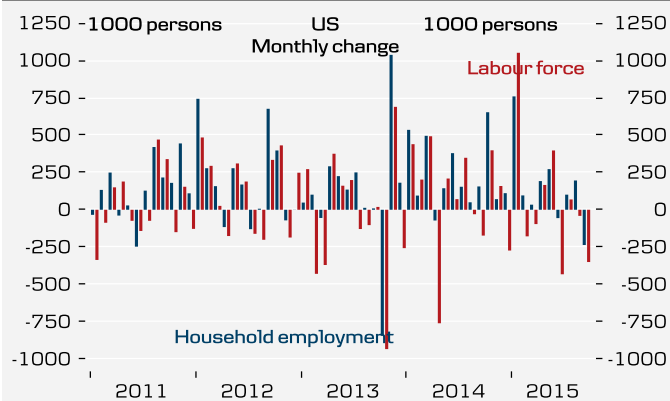
Source: BLS and Danske Bank Markets

Payrolls, goods and service producing



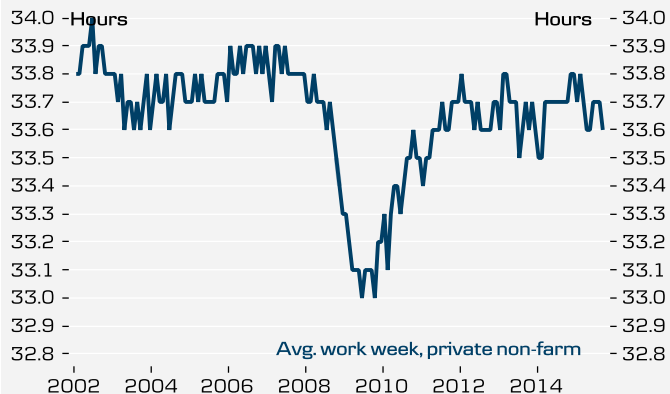
Source: BLS and Danske Bank Markets

Labour force and employment (household survey)



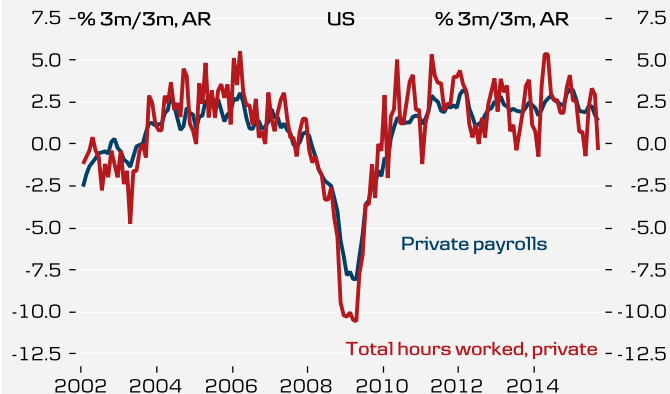
Source: BLS and Danske Bank Markets

Average weekly hours



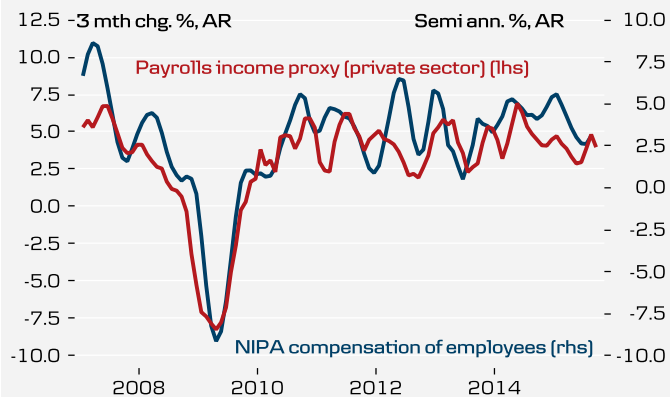
Source: BLS and Danske Bank Markets

Total hours worked vs payrolls



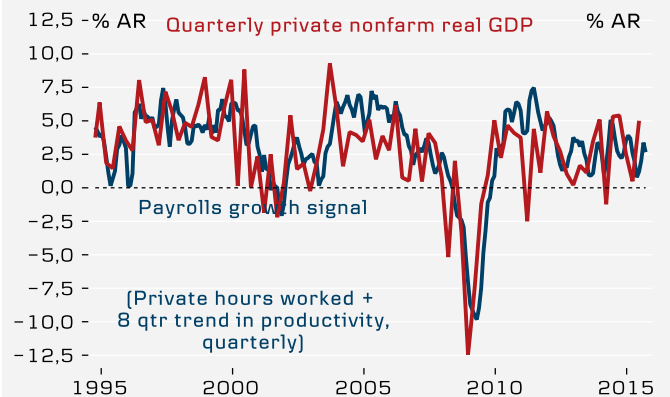
Source: BLS and Danske Bank Markets

Payrolls income proxy



Source: BLS and Danske Bank Markets

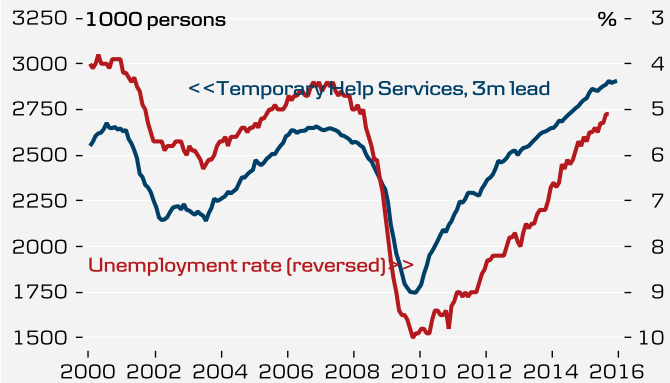
Payrolls GDP signal



Source: BLS and Danske Bank Markets

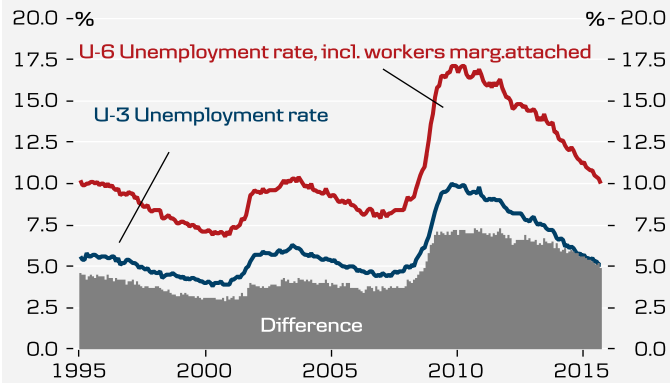
Unemployment

Temporary help services and unemployment



Source: BLS and Danske Bank Markets

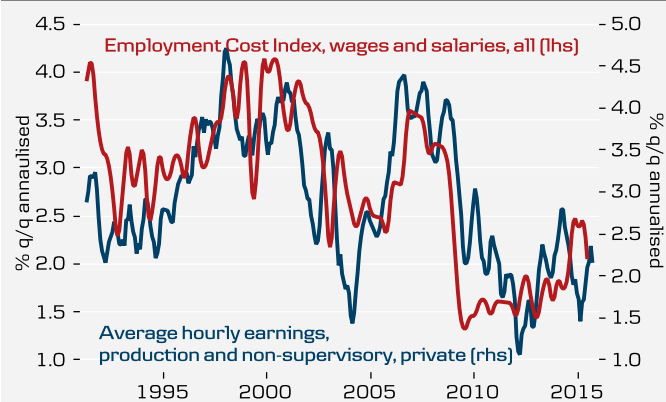
Unemployment narrow and broad measure



Source: BLS and Danske Bank Markets

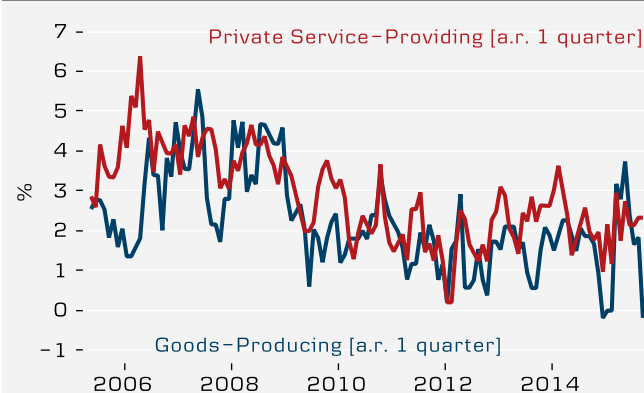
Wages

Average hourly earnings and Employment Cost Index



Source: Macrobond Financial, BEA

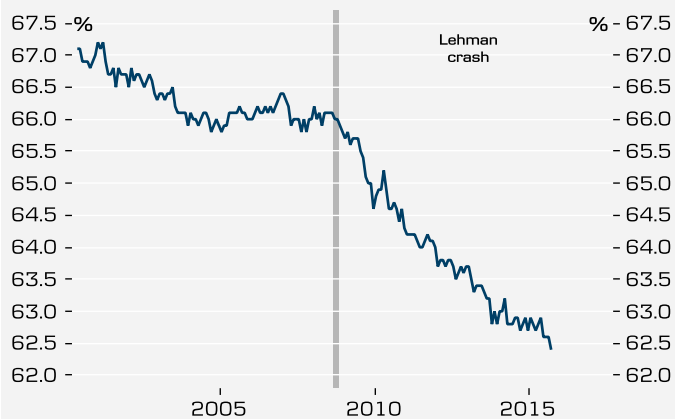
Hourly earnings, production and non-supervisory



Source: Macrobond Financial, BLS

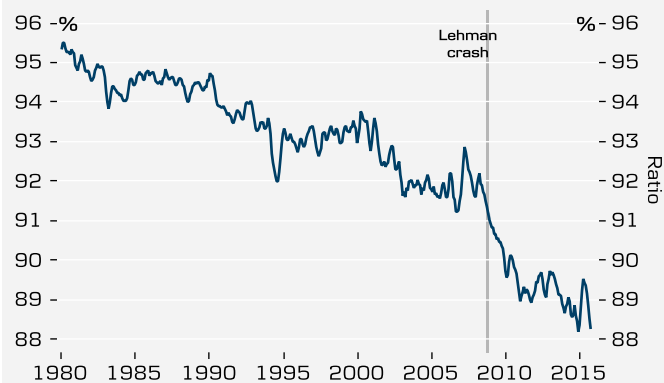
Participation

Participation rate, all



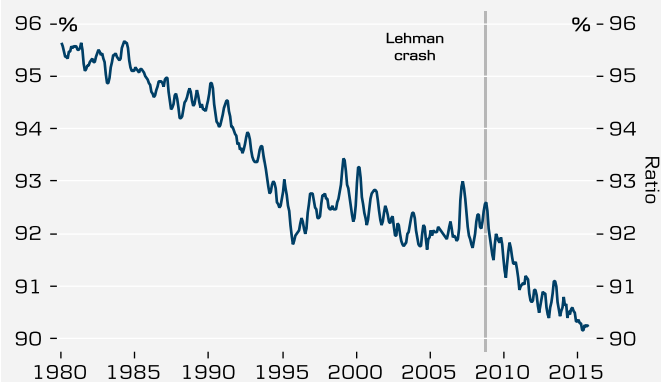
Source: Macrobond Financial, BLS

Participation rate, 25-34, men



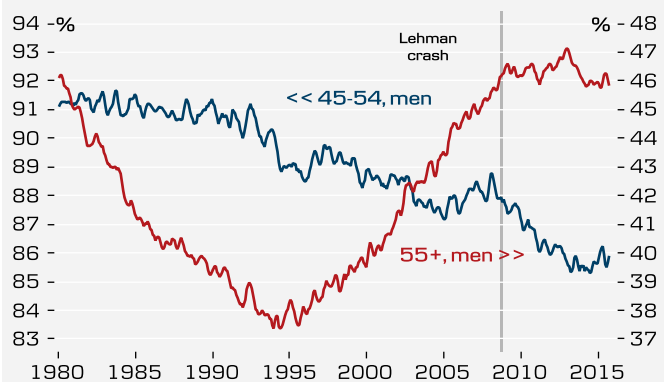
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

Participation rate, 45-54 and 55+, men



Source: Macrobond Financial, BLS

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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 Signe Roed-Frederiksen, Senior Analyst.

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