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UNITED STATES

US jobs report beats all expectations, boosts case for a September hike

The US added 162,000 jobs in August, above all expectations in the market, with an additional 55,000 of upward revisions to the past two months. With Fed Chair Kevin Warsh describing the US at full employment, this outcome has nudged expectations of a September rate hike higher, but the final decision hangs on next Friday s inflation print

The August jobs report was stronger than expected, with construction one of the bright spots. The stronger number could result in a September rate hike, but we still have next week's inflation numbers

162,000 US jobs added in August

Better than expected

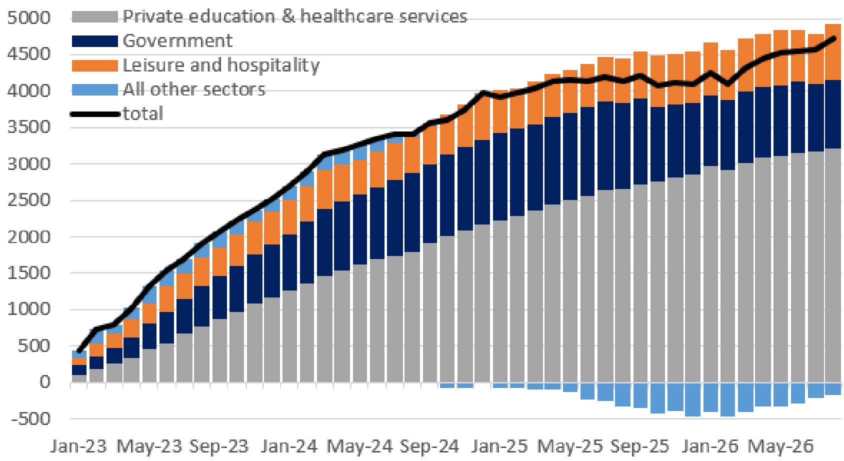
Solid job gains, unemployment stays low

Today has seen the release of a strong US August jobs report that makes a September Fed interest rate hike look a little more likely. NFPs rose 162k with 55k of upward revisions to the past two months. Expectations were for just a 55k rise in total. The unemployment rate remains unchanged at 4.1% despite an improvement in the participation rate. Wage growth is benign, rising 3.1% year-on-year.

The details show the private sector contributing 127k of the 162k total new jobs, with leisure and hospitality rebounding 62k after two consecutive down months and private education & healthcare adding 29k. Construction added 22k and manufacturing added 16k. Government was also firm despite small drops in federal and state government employment. Instead, it was local government education, which rose 42k that led the charge. That is a surprise given media coverage of falling pupil enrolment and supposed lay-offs in the sector.

Jobs growth continues to be dominated by just three sectors – private education and healthcare services, government and leisure and hospitality. This concentrated story is underscored by the fact that cumulatively, all other sectors of the economy have lost jobs since the end of 2022. That is a remarkable situation given the strength of GDP growth seen over that period and implies big productivity gains and reinforces the message about robust corporate profitability in the United States.

Cumulative increase in employment since December 2022 (000s)

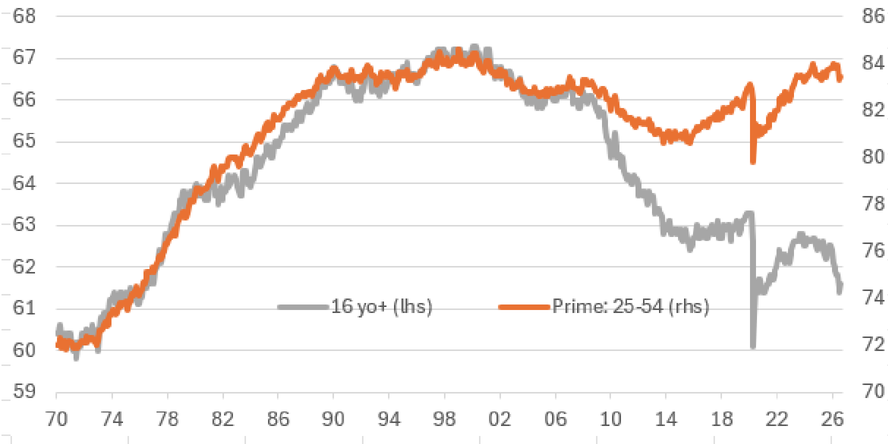


Source: Macrobond, ING

Labour force participation remains worryingly weak

In terms of the household survey, used to calculate the unemployment rate, it showed a 569k increase in employment and a 115k increase in unemployment facilitated by a 683k increase in the civilian labour force. This is a partial correction to a startling trend of people leaving the workforce. Ten months ago, the participation rate was up at 62.6%, falling to 61.4% in July, but now back to 61.6%.

Labour force participation (%)



Source: Macrobond, ING

A soft inflation print could still tempt the Fed to hold steady

Unsurprisingly, the market has moved to price 16bp of a 25bp rate hike, up from 12.5bp yesterday after Fed Governor Waller's relatively dovish comments whereby he suggested a soft inflation print could mean he votes for stable policy. Next Friday's CPI report will indeed be the key decider and the 0.4% month-on-month increase in headline prices and a 0.2% increase in core (ex food and energy) prices, which is what both we and the consensus predict, is probably not cool enough to prevent Warsh nudging the rest of the FOMC into a hike.

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