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UNITED STATES

Cooler US jobs growth supports a Federal Reserve pause in October

In the wake of dovish-leaning comments from the Fed leadership and softer-than-anticipated inflation, today s weaker-than-predicted jobs figures have further diminished the chances of an October interest rate hike. December remains the most likely date for the next move. We continue to believe market pricing for additional action is too aggressive



Manufacturing jobs increased for a fourth consecutive month in September, one of the bright spots in a weaker-than-expected nonfarm payrolls number

29,000 **Number of jobs added in September**

Lower than expected

September jobs report was weaker on all three key metrics

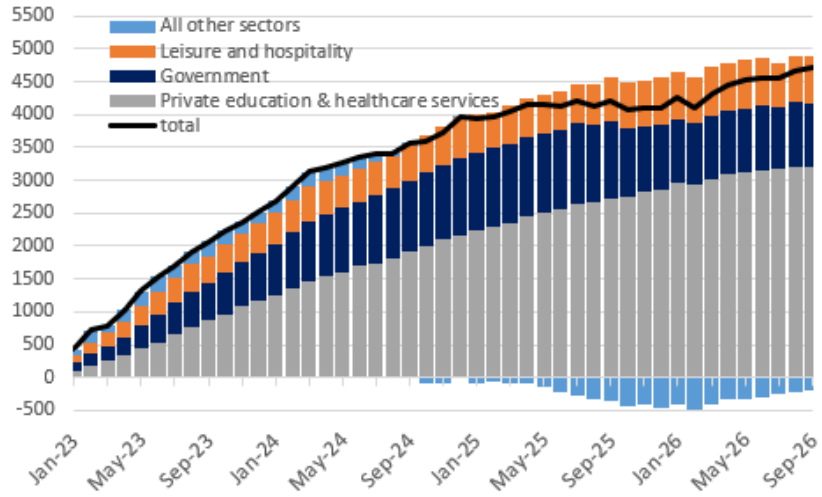
The US September jobs report is softer than expected on all three key metrics. 1) non-farm payrolls rose +29k versus the +90k consensus with 60k of downward revisions, 2) the

unemployment rate ticks up to 4.2% from 4.1%, driven by a partial recovery in the participation rate (people returning to the workforce) and 3) and wage growth of 3% year-on-year versus 3.1%, suggesting that there is no inflation threat emanating from the jobs market.

It chimes with the latest comments from Federal Reserve big hitters John Williams (NY Fed president) and Philip Jefferson (Vice Chair), suggesting they may need more time/no urgency to hike rates. As such, the Fed leadership is clearly leaning in the direction of an October hold, meaning it will require a hot September CPI print (due 14 October) to make the meeting interesting. December remains our call on the next Fed hike.

In terms of some of the details, manufacturing is the bright spot with the fourth consecutive monthly rise and 72,000 jobs cumulatively added since the start of the year. This is consistent with strong survey readings for the sector, with advanced manufacturing (pharma, transport & aerospace, computing & electronics) performing particularly well. Construction also increased, potentially tied to the strength in data centre activity. Services are weaker though, with information (-10k), financial (-7k), professional business services (-9k) and government (-17k) all falling. The chart below shows that the 'big 3' job-creating sectors remain private education and healthcare services, government (state & local rather than federal) and leisure and hospitality.

Cumulative employment change since December 2022 (000s)



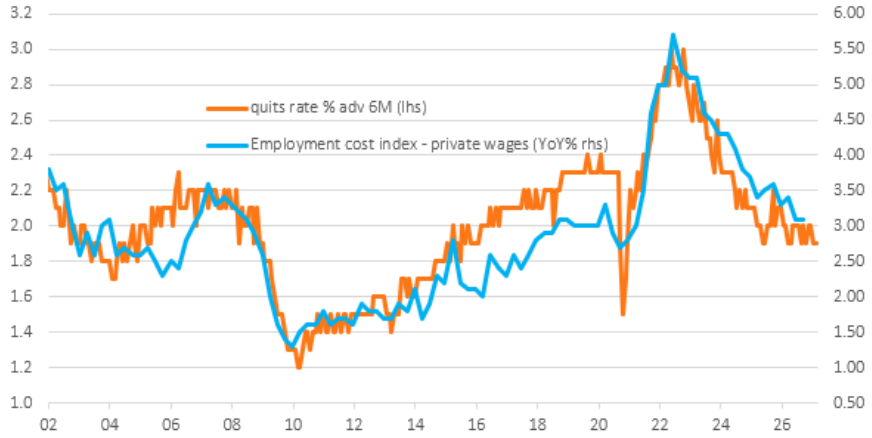
Source: Macrobond, ING

Labour market slack points to weak wage growth

The rise in the unemployment rate shouldn't be much of a surprise. It is a low hire, low fire economy and the lack of opportunities has led to a hefty fall in labour participation. It can be a little choppy, and we saw a 485,000 increase in the labour force last month, lifting the participation rate to 61.8% from 61.6%. There are now similar numbers of unemployed people

and job vacancies. In early 2022, there were two job vacancies for every unemployed American. Unsurprisingly, this demand-supply swing lower is depressing wage growth, with the low quits rate suggesting further downside risks to wage growth relative to the current, already low, 3% rate. This suggests there is no inflation threat coming from the jobs market and reinforces our view that the market pricing of 3-4 Fed rate hikes looks too aggressive.

Low quits rate points to ongoing wage weakness



Source: Macrobond, ING

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