

US Labour Market Monitor

June report likely to be stronger than in recent months

Job creation in June probably above trend growth

The jobs report for June, due on Friday, will probably turn out somewhat better than the previous three reports. Although there are some signs that labour market progress has slowed in 2017, there is reason to believe that the June report will be better. This is due to some likely recovery after three rather weak reports and because indicators like PMIs suggest higher employment growth. **We expect employment rose 180,000 in June** and we continue to see the service sector as the main contributor with an expected increase of 150,000 and manufacturing contributing 15,000. Note that even though job growth has slowed in the first five months of 2017, it is still significantly higher than the structural growth in the labour force. Hence, it is strong enough to tighten the labour market and lower the unemployment rate over time. **We estimate the unemployment rate remained flat at 4.3%**, but stress that if participation rates start to increase again we may see a rise in unemployment, which should not be seen as a cause of concern. **Finally, we estimate average hourly earnings increased 0.3% m/m, implying a wage growth rate of 2.6% y/y.**

While most labour market indicators are now stronger than during the recent upturn, the slack indicators still suggest there is some slack left in the labour market, as the number of marginally attached, part-time workers for economic reasons is still high and the number of the long-term unemployed is still elevated (see also the spider web chart on the next page). This also suggests that the unemployment gap is not closed yet. One reason may be that people on the edge of the labour market do not have the necessary qualifications, as there are many positions which businesses are unable to fill.

Fed has faith in the Phillips curve

With the rate hike in June, the Fed sent a clear signal to us that it is not as data dependent as it claims to be, and is biased towards a normalisation of rates, see also *FOMC review: Hawkish Yellen ignores inflation and weaker data*, 15 June. At least the Fed is focused more on the unemployment rate than wage growth, inflation and inflation expectations which are all low. **The reason is Fed Chair Yellen's faith in the Phillips curve**, as during the press conference she repeatedly said that the tighter labour market should be sufficient to push wage growth and inflation higher eventually. The problem is that tightness of the labour market is not the only factor determining wage growth, as second-round effects from the many years with low inflation have hit wage growth. When employees expect inflation to remain low, they can live with low wage growth, as real wage growth may still be solid. See also *Strategy: Central banks consider leaving the party*, 30 June.

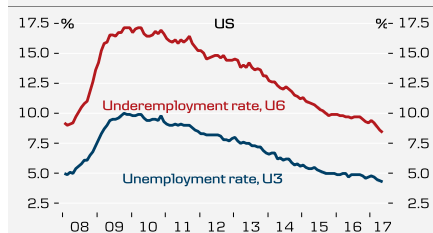
We expect the Fed to hike one more time this year in December due to the focus on the unemployment rate and easy financial conditions. By skipping September, the Fed can get some more clarification about whether the low inflation prints in recent months were temporary or not. Instead, we expect the Fed to make an announcement on the balance sheet in September.

Danske Bank forecasts (June)

	DB	Consensus	Prior
Non-farm Payrolls	180	190	138
-Private	-	190	147
-Manufacturing	15	10	-1
-Service	150		131
-Construction	-		11
-Mining and logging	-		6
-Government	-		-9
Unemployment rate	4.3%	4.3%	4.3%
Avg. hourly earnings	2.6%	2.6%	2.5%

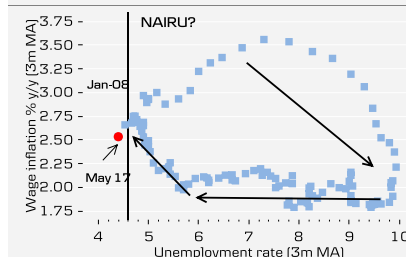
Source: BLS, Bloomberg, Danske Bank Markets

Unemployment rates suggest there is still slack left in the labour market



Source: BLS

Wage growth has increased due to the tighter labour market but is still low due to low inflation expectations



Source: BLS, Danske Bank Markets

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US labour market in one chart

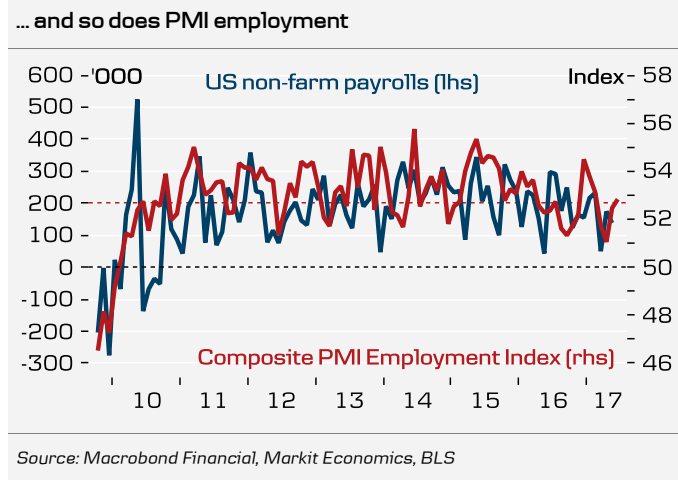
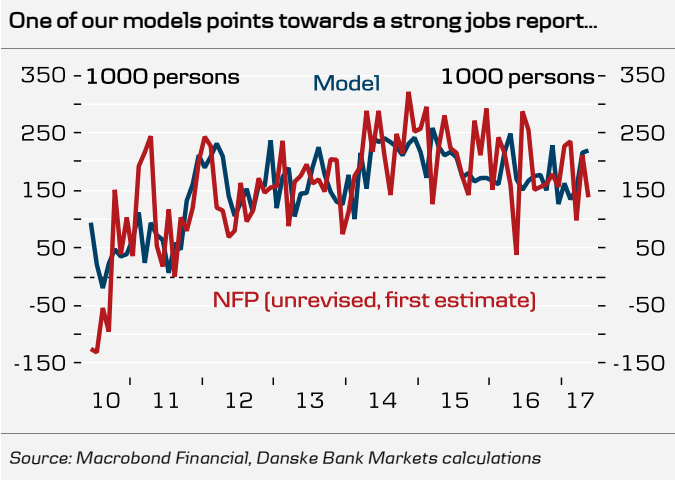
Labour market strong but still slack left
 – outward moves indicate stronger labour market



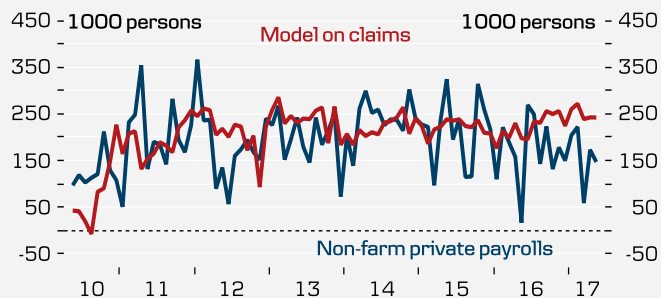
The index compares the labour market conditions last month and one year ago with the pre-recession peak in employment in December 2007 (Index 100) and the post-recession trough in employment in December 2009 (Index 0).

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 working 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. For JOLTS data we have used the average of the past two observations as the newest figures. Source: BLS (JOLTS), Macrobond Financial

Models and leading indicators



Low claims figures still suggest job growth above 250,000; relationship between claims and job growth is weak though



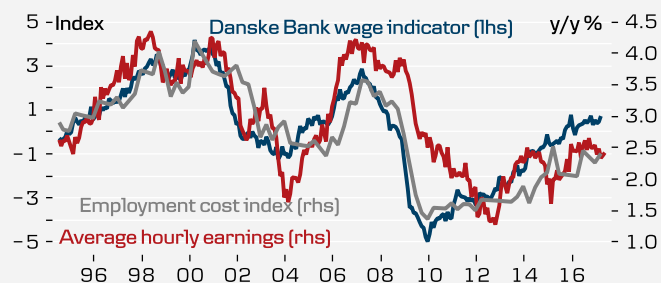
Source: Macrobond Financial, US Department of Labor, BLS

Small businesses expect to hire more



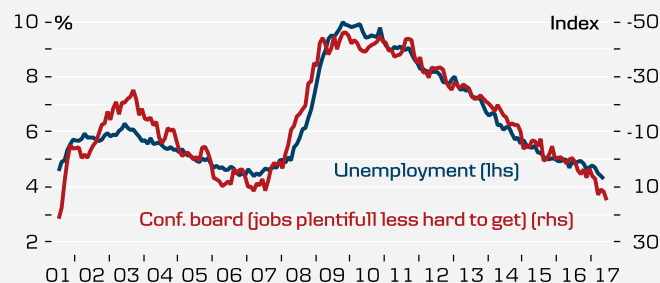
Source: Macrobond Financial, NFIB

Wage inflation is not set to accelerate



Source: BLS, Danske Bank Markets

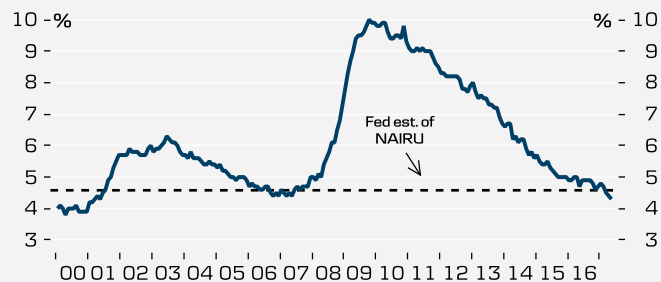
Indicators point to lower unemployment rate



Source: BLS, Conference Board

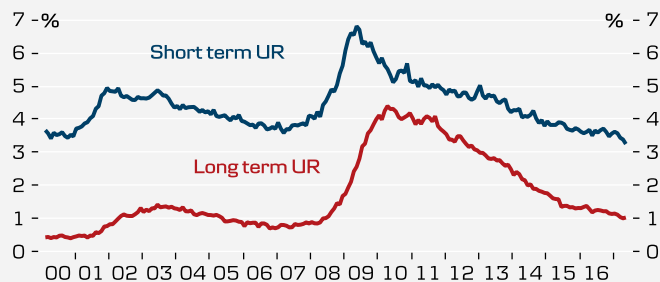
Unemployment measures

Unemployment rate slightly below Fed's NAIRU estimate



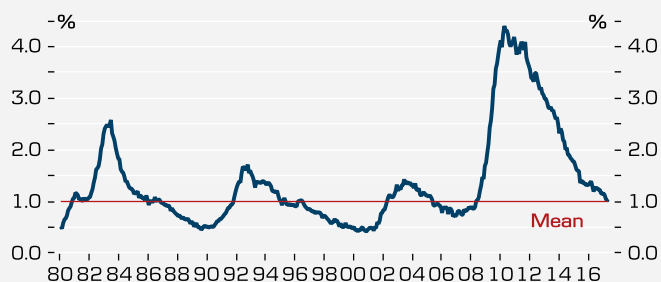
Source: Macrobond Financial, FOMC, BLS

Unemployment broken down by duration



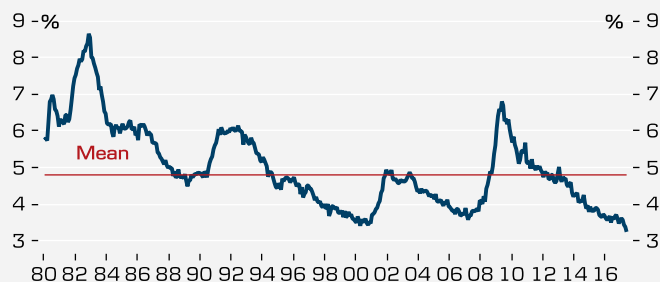
Source: Macrobond Financial, BLS

Long-term unemployment rate almost back on average



Source: Macrobond Financial, BLS

Short-term unemployment near historical low



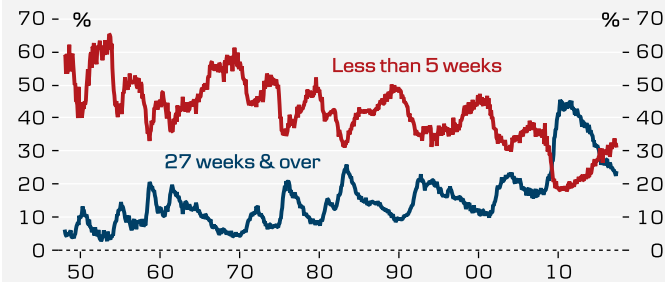
Source: Macrobond Financial, BLS

Long-term unemployment as % of total unemployed



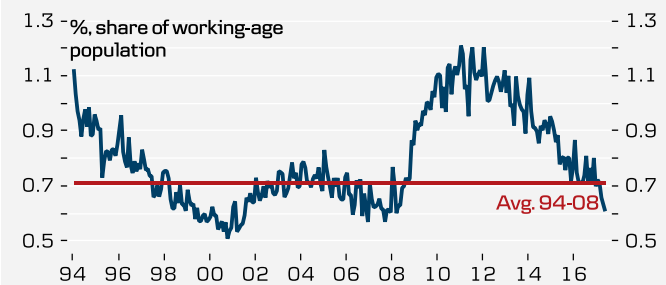
Source: Macrobond Financial, BLS

Distribution of duration of unemployment



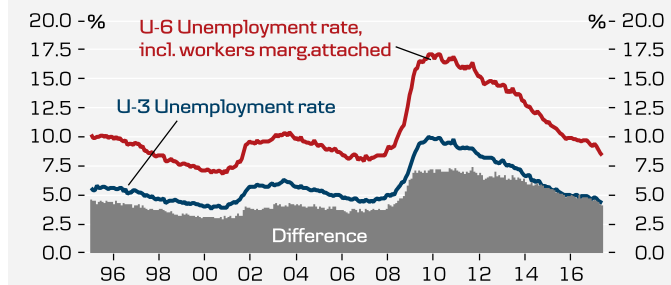
Source: Macrobond Financial, BLS

Marginally attached workers below average



Source: Macrobond Financial, BLS

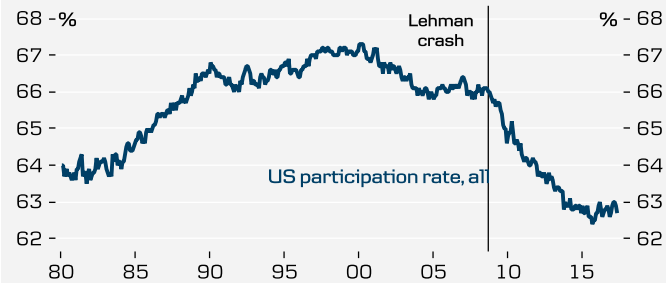
U6 unemployment has begun to fall again



Source: Macrobond Financial, BLS

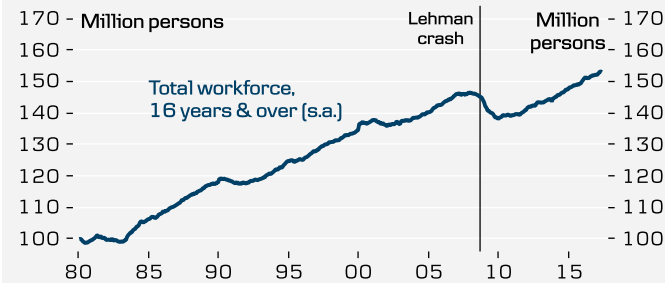
Participation

Will the participation rate reach pre-crisis rebound?



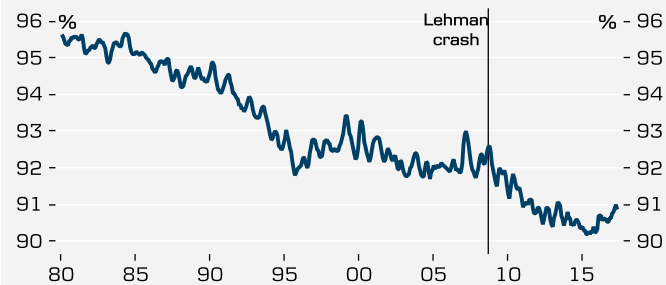
Source: Macrobond Financial, BLS

Labour force increasing despite low participation rate



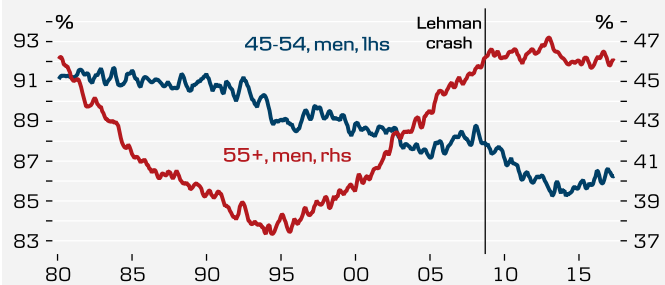
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

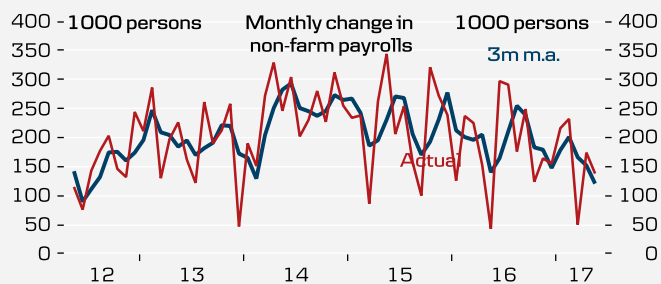
Participation rate, 45-54 and 55-plus, men



Source: Macrobond Financial, BLS

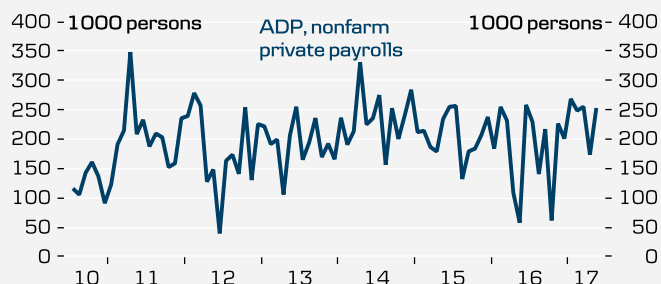
Employment measures

Job creation continues to tighten labour market



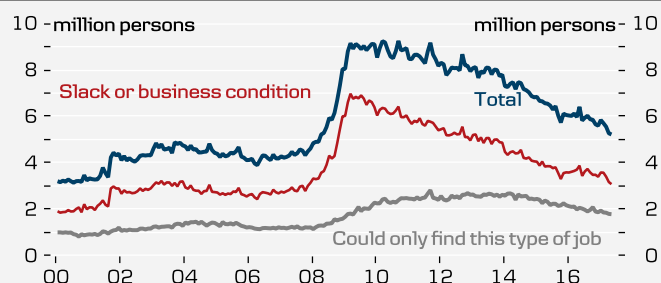
Source: Macrobond Financial, BLS

ADP private payrolls growth



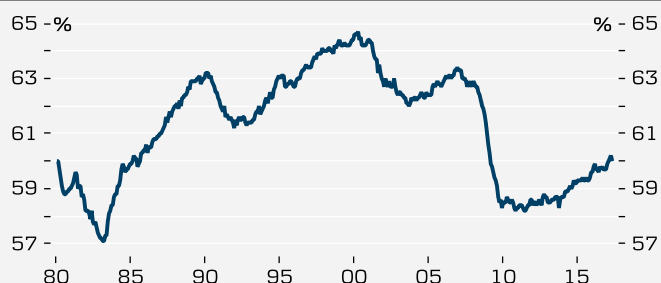
Source: Macrobond Financial, ADP

Fewer people working part-time for economic reasons



Source: Macrobond Financial, BLS

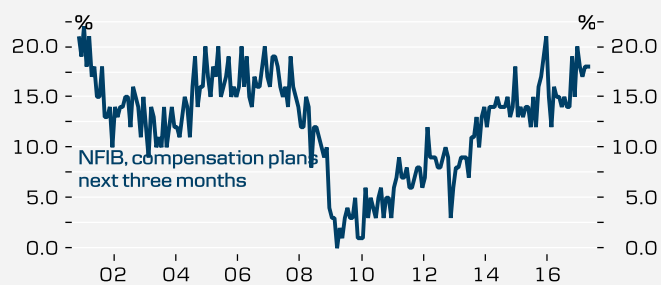
Employment to population ratio



Source: Macrobond Financial, BLS

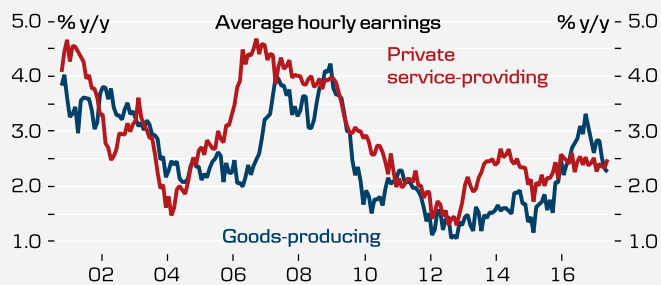
Wage growth and inflation

NFIB compensation plans



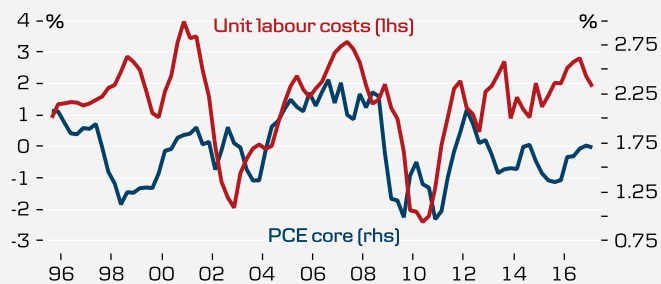
Source: Macrobond Financial, NFIB

Wage growth in service sector still subdued



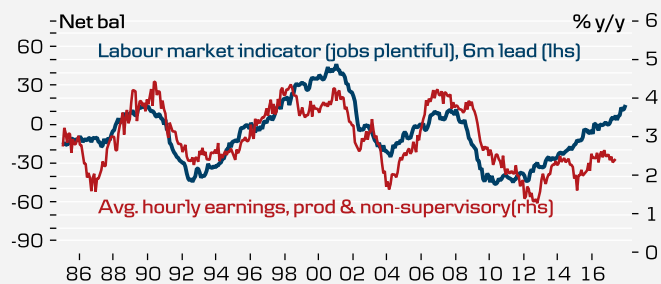
Source: Macrobond Financial, BLS

Unit labour costs putting upward pressure on core inflation



Source: Macrobond Financial, BLS, Census, BEA

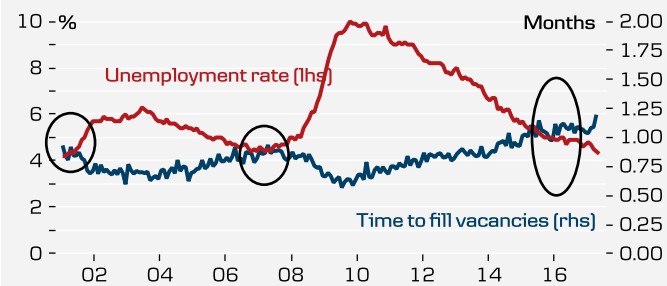
Worker confidence is slowly rising – will wages follow?



Source: Macrobond Financial, Conference Board, BLS

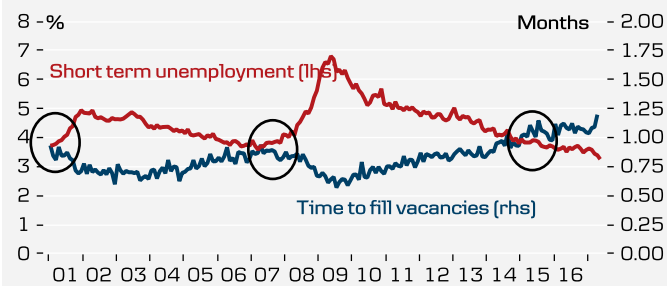
The employer's perspective

Unemployment and time to fill vacancies



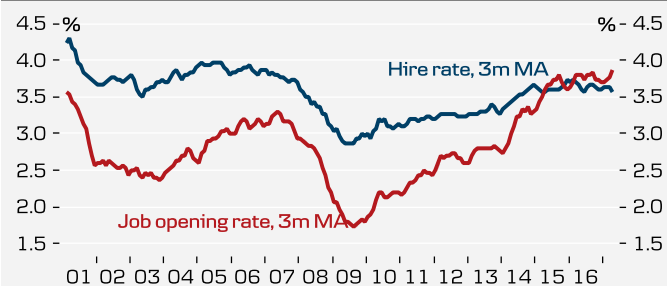
Source: Macrobond Financial, BLS

Long time to fill vacancies suggests a tight labour market



Source: Macrobond Financial, BLS

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



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 authors of this research report are Mikael Olai Milhøj, Senior Analyst, and Mark Thybo Naur, Assistant Analyst.

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None

Date of first publication

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