

US Labour Market Monitor

Expect strong November report

November to slightly exceed trend jobs growth

We expect the jobs report for November will show above trend progress in labour market. Employment growth has been lower than that indicated by other indicators such as PMI employment index in recent months. However, we expect a partial correction of that in November now that the effect of the hurricanes is diminishing. **We expect employment growth of 195,000 in November.** We expect the service sector to remain the main driver of job creation with 160,000 new jobs created in November. Although 195,000 new jobs per month would not have been considered strong last year, the labour market has tightened significantly since. Therefore, the current trend (approximately 160,000 m/m) is still strong enough to keep tightening the labour market. We expect unemployment to remain unchanged at 4.1%. Finally, we expect that average hourly earnings increased 0.2% m/m (2.6% y/y vs 2.4% y/y in October).

While most labour market indicators are strong, the slack indicators still suggest there is some slack left, as the numbers of marginally attached and part-time workers for economic reasons are still above pre-crisis levels and long-term unemployed is still elevated (see also the spider web chart on the next page). This 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 set to hike at December meeting

We expect the Fed to hike at its next FOMC meeting on 12-13 December. Even if we get a disappointing jobs report, this is not likely to change the Fed's intention to hike. Hence, the jobs report should not be a major market mover this time around. This has also been the norm during recent months where jobs reports have not had a significant effect on e.g. EUR/USD. This indicates that the market does not believe that a single number will change much in Fed policy decisions. See also our new publication, *FX essentials*, 4 December 2017, if you are interested in Danske Bank's view on FX.

Despite weak inflation and subdued wage growth, the Fed still thinks it is appropriate to hike rates, as Yellen still has a strong belief in the Phillips curve mechanism (tighter labour market will push up wage growth and hence inflation eventually). We expect no major changes in the interpretation of the labour market and its impact on Fed policy under Fed chair nominee Powell, as he has said that he thinks it is appropriate to continue the gradual hiking cycle. However, where uncertainties still remain is about how he will react in the case of an adverse shock to the economy. For more details on the FOMC, see *FX Edge – inexperienced Fed to be a drag on USD*, 30 November 2017.

Danske Bank forecasts (November)

	DB	Consensus	Prior
Non-farm Payrolls	195	199	261
-Private	190	200	252
-Manufacturing	15	17	24
-Service	160		219
-Construction	10		11
-Mining and logging	5		-2
-Government	5		9
Unemployment rate	4.1%	4.1%	4.1%
Avg. hourly earnings	2.6%	2.7%	2.4%

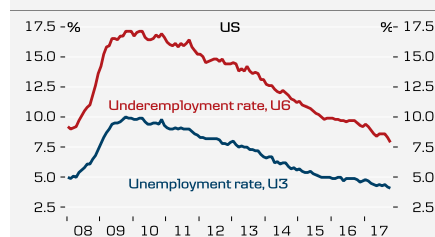
Source: BLS, Bloomberg, Danske Bank

Trend growth in job creation slowing



Source: BLS, Macrobond Financial

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



Source: BLS, Macrobond Financial

Senior Analyst

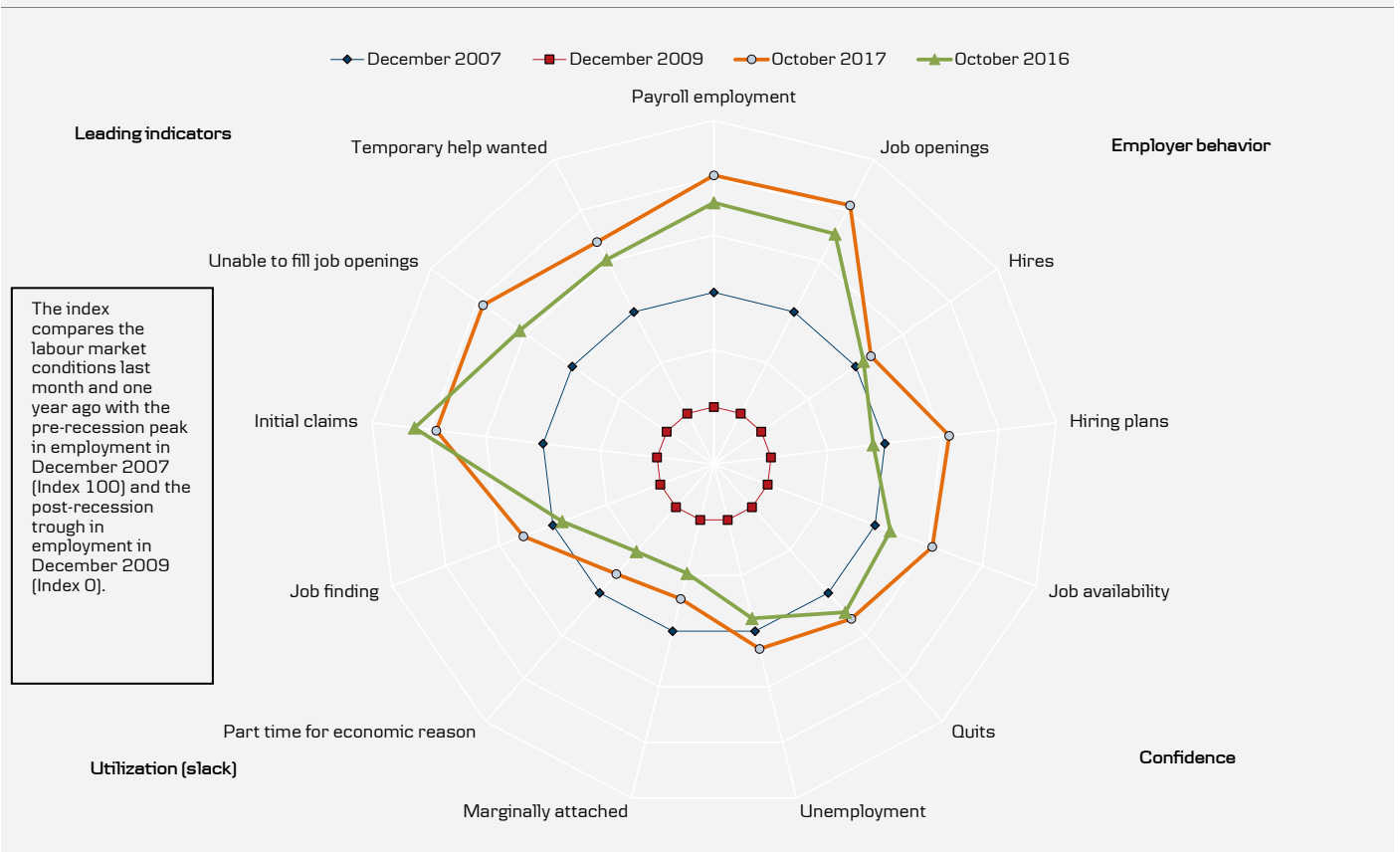
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US labour market in one chart

**Labour market strong but still slack left in the labour market
- outward moves indicate stronger labour market**



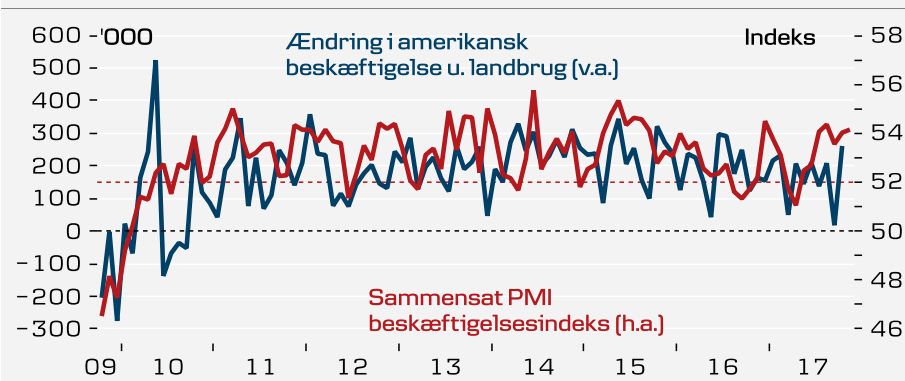
Note: the diagram shows the level of tightness of different US labour market key figures at different times, compared with the level of the same figures in December 2007 (index=100) and December 2009 (index = 0). Counter-cyclical figures (unemployment rate, jobless claims, marginally attached and working 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), Atlanta Fed, Macrobond Financial, Danske Bank

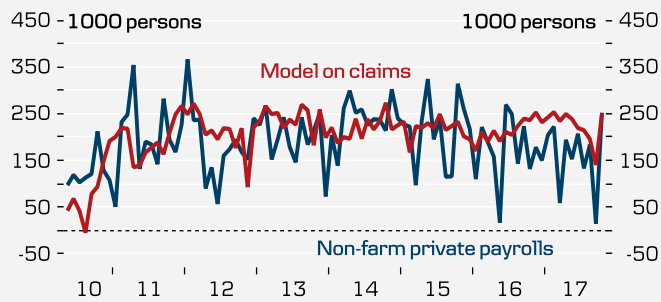
Models and leading indicators

PMI composite employment points to strong jobs report



Source: Macrobond Financial, Markit Economics, BLS

Claims have moved higher – suggests slower jobs growth



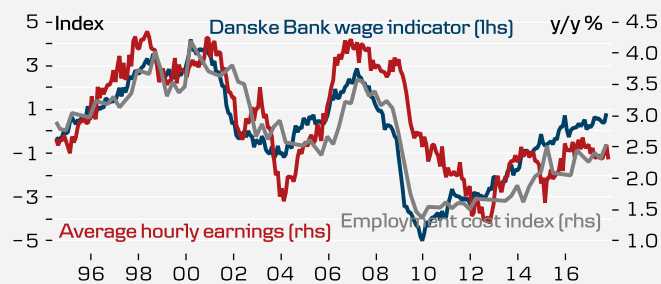
Source: Macrobond Financial, US Department of Labor, BLS

Small businesses expect to hire more



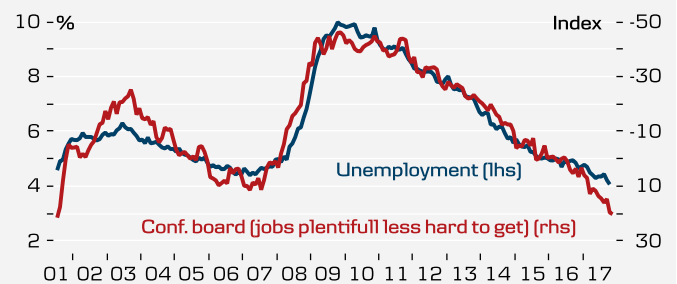
Source: Macrobond Financial, NFIB

Wage growth has stabilised at subdued level



Source: BLS, Danske Bank Markets

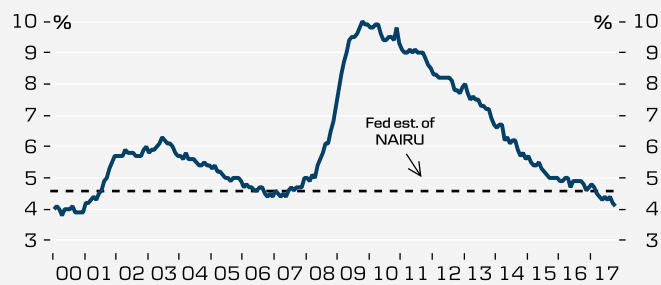
Unemployment rate likely to fall further going forward



Source: BLS, Conference Board

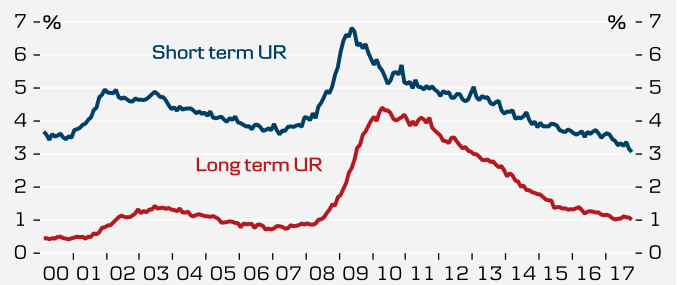
Unemployment measures

Unemployment rate slightly below Fed's NAIRU estimate...



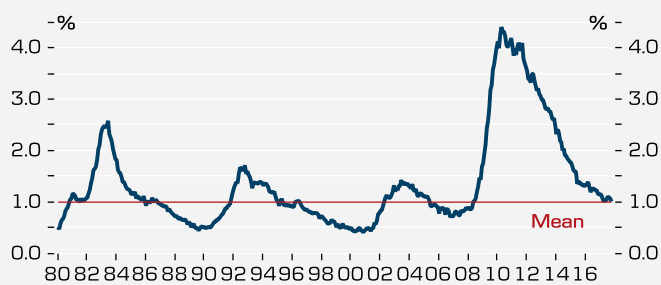
Source: Macrobond Financial, FOMC, BLS

Long-term unemployment not at previous lows yet



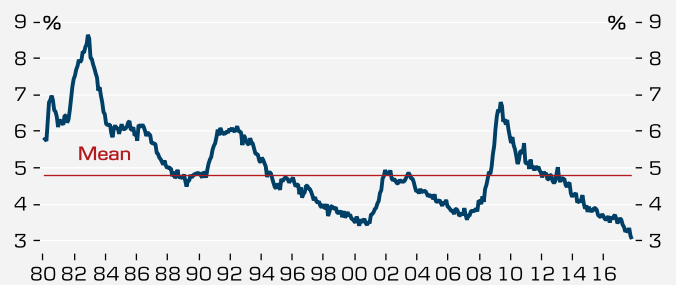
Source: Macrobond Financial, BLS

... but long-term unemployment back to historical average



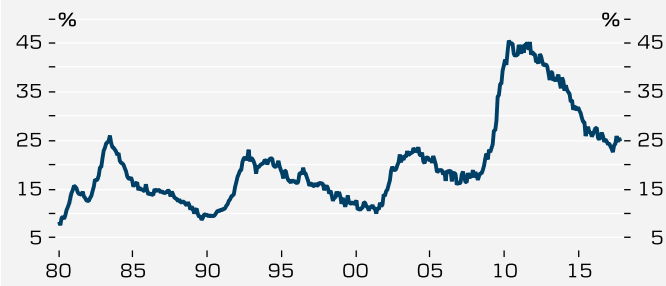
Source: Macrobond Financial, BLS

Short-term unemployment very low



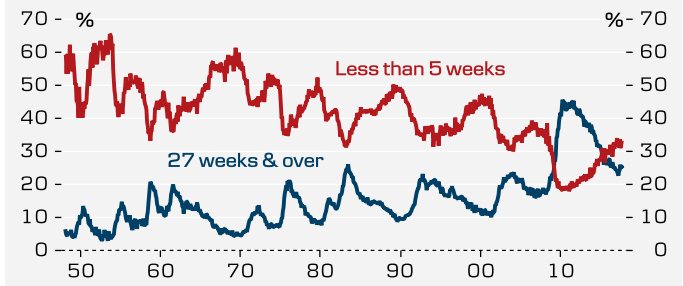
Source: Macrobond Financial, BLS

Long-term unemployment as % of total unemployed



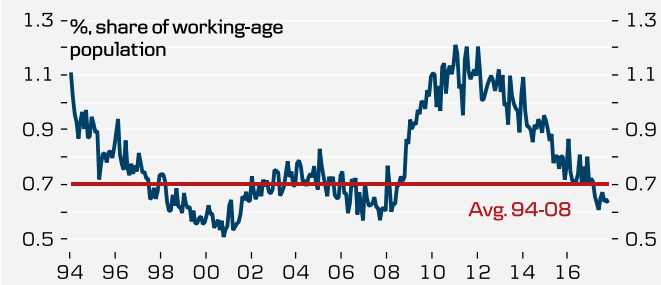
Source: Macrobond Financial, BLS

Distribution of duration of unemployment



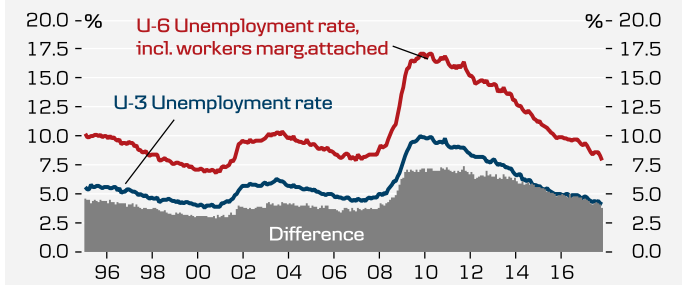
Source: Macrobond Financial, BLS

Marginally attached workers below average but not at record-lows



Source: Macrobond Financial, BLS

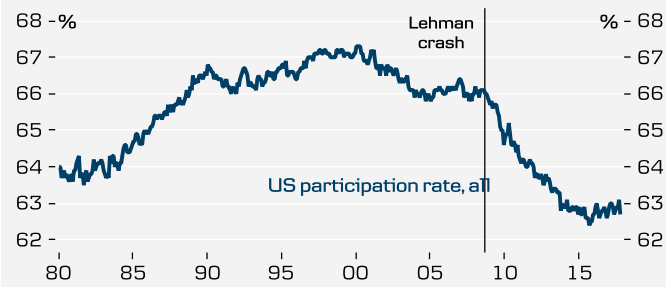
U6 unemployment also declining



Source: Macrobond Financial, BLS

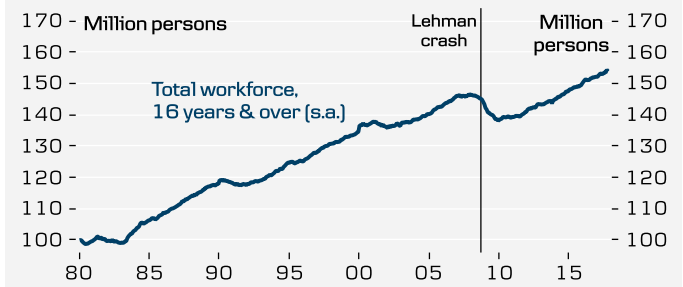
Participation

Will the participation rate reach pre-crisis rebound?



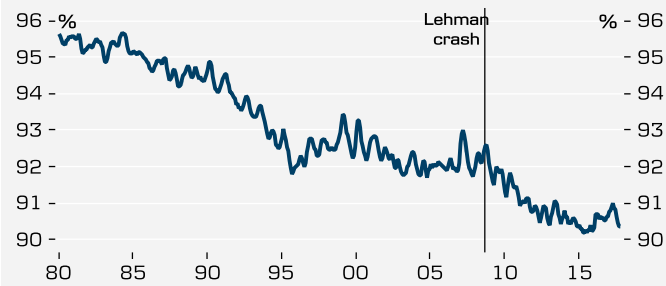
Source: Macrobond Financial, BLS

Labour force increasing despite low participation rate



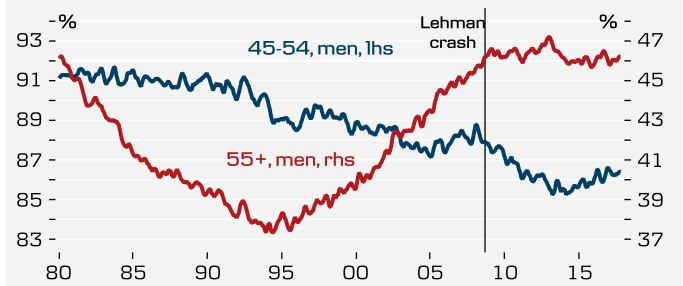
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

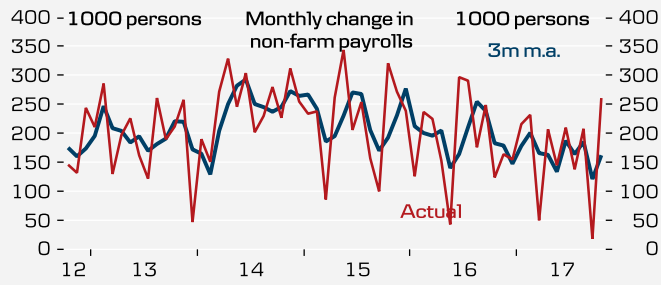
Participation rate, 45-54 and 55-plus, men



Source: Macrobond Financial, BLS

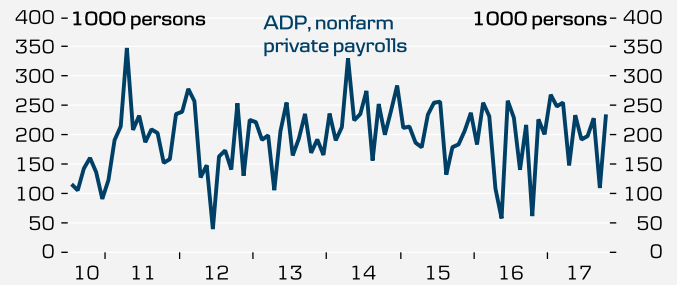
Employment measures

Job creation continues to tighten labour market



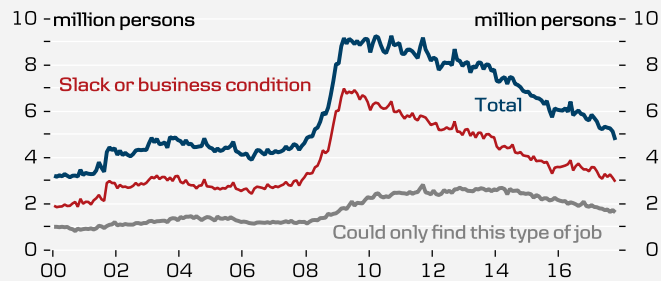
Source: Macrobond Financial, BLS

ADP private payrolls growth



Source: Macrobond Financial, ADP

Fewer people working part-time for economic reasons



Source: Macrobond Financial, BLS

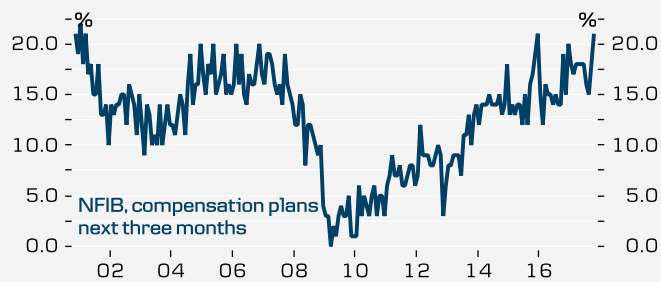
Employment to population ratio still below previous levels



Source: Macrobond Financial, BLS

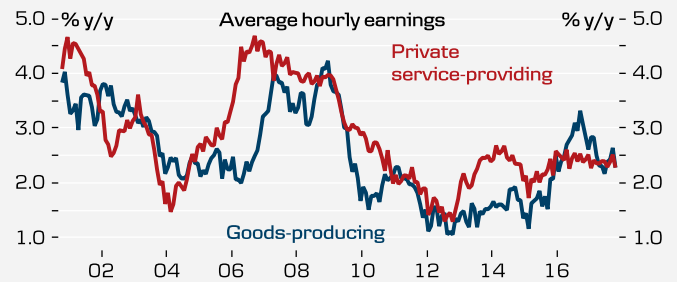
Wage growth and inflation

NFIB compensation plans are high



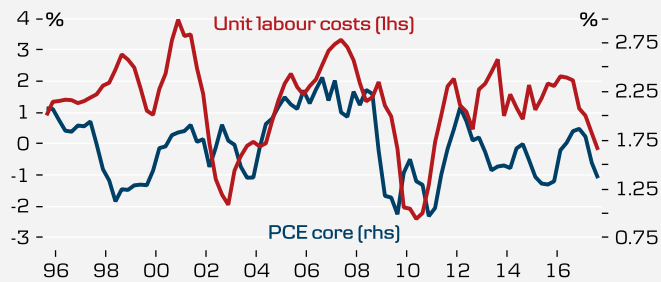
Source: Macrobond Financial, NFIB

Wage growth in service sector still subdued



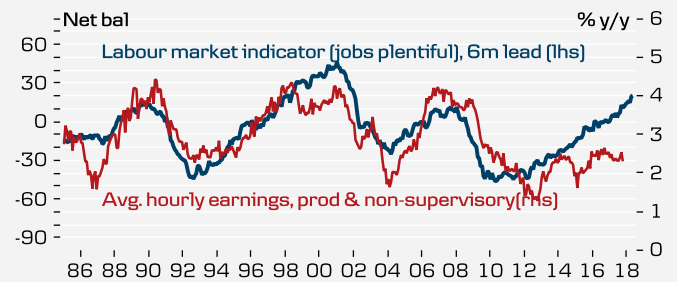
Source: Macrobond Financial, BLS

Unit labour costs growth has slowed



Source: Macrobond Financial, BLS, Census, BEA

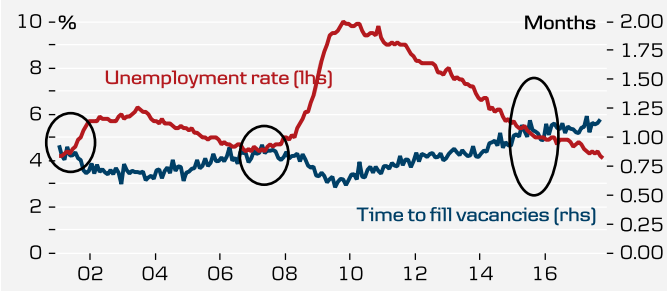
Worker confidence is slowly rising - will wages follow?



Source: Macrobond Financial, Conference Board, BLS

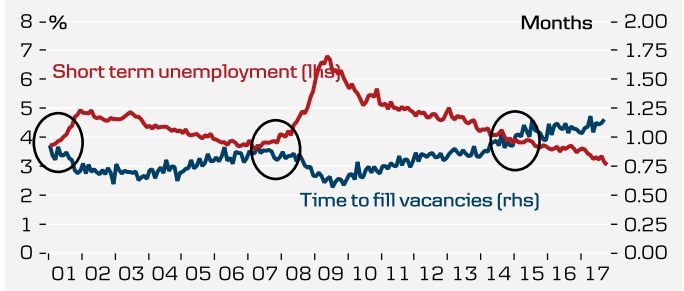
The employer's perspective

Unemployment and time to fill vacancies



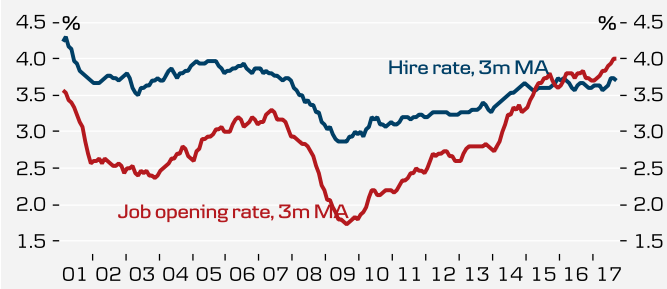
Source: Macrobond Financial, BLS

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

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