

US Labour Market Monitor

November jobs report not a key determinant for Fed's decision to hike in December

Jobs report preview – November not a key determinant

Labour market data have been solid in November, with low initial claims and the Markit PMI employment index pointing to slightly higher job growth. However, estimation models based on claims have tended to overestimate job growth recently, while the PMI employment index has underestimated job growth. The ADP jobs report was good overall with strong jobs growth of 210,000 in November, but downward revision of 28,000 in October. **We estimate non-farm payrolls increased by 170,000 in November in line with the recent trend and more or less in line with the consensus of 180,000.** We estimate private services was the main contributor to job growth, with 150,000 new jobs added here. After three months in decline, we see manufacturing employment unchanged in November since manufacturing activity points upwards. Construction employment probably increased 10,000 in November with risks skewed to the upside due to a solid increase in housing starts in October. **We estimate an unchanged unemployment rate at 4.9% and that average hourly earnings increased 0.2% m/m implying an unchanged wage growth rate of 2.8% y/y.**

The October report was strong, with job growth of 161,000, upwards revisions of previous months, declines in both the unemployment and underemployment rates to 4.9% and 9.5% respectively (from 5.0% and 9.7%) and acceleration of wage growth to 2.8% y/y (from 2.7% y/y). **This is in our view sufficient 'further evidence' for the FOMC to raise rates in December, which is now also fully priced in by markets.** We do not see the November jobs report changing the view that Fed is going to raise rates in December.

On average, job growth has been around 50,000 lower per month in 2016 compared to 2015. **With the economy gaining momentum now, we could see employment growth move a bit higher in the coming months. However, a tighter labour market now should cap jobs growth.** The magnitude of employment growth over the coming year depends on the amount of slack left in the labour market. Flat unemployment measures and wage inflation have suggested slack still persists.

More dovish FOMC next year likely to run the labour market hot

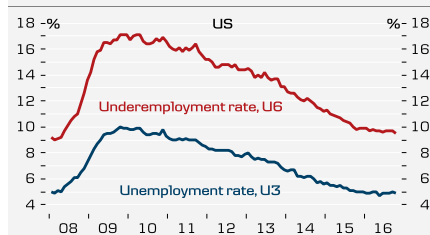
Looking into 2017, the FOMC is turning more dovish 'on paper', which emphasises the importance of strong labour market performance and continued progress on unemployment and wage growth. A hot labour market is viewed by several dovish FOMC members as a chance to undo some of the supply-side damage done by the great recession. This should ultimately increase the participation rate, making room for further employment growth. However, the risk is that the economy overheats, which will ultimately force the FOMC to hit the brakes. Of the twin-goals, we see inflation as the one being furthest from target. An increasing wage inflation rate will be a solid indication of increasing inflationary pressure in the economy. Hence, letting the labour market run a bit hot could help to bring core inflation back above 2 percent. **Altogether, we believe the FOMC will look through accelerating wage inflation in the short term and let the labour market run a bit hot to make sure slack is fading and core inflation is moving towards (above) the two percent target.**

Danske Bank forecasts (November)

	DB	Consensus	Prior
Non-farm Payrolls	170	180	161
-Private	160	-	142
-Manufacturing	0	-	-9
-Service	150	-	142
-Construction	10	-	11
-Mining and logging	-	-	-2
-Government	10	-	19
Unemployment rate	4.9%	4.9%	4.9%
Avg. hourly earnings	2.8%	2.8%	2.8%

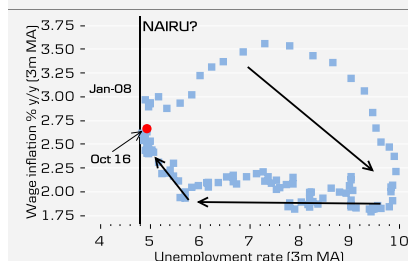
Source: BLS, Bloomberg, Danske Bank Markets

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



Source: BLS

Higher wage growth due to tighter labour market



Source: BLS, Danske Bank Markets

Senior Analyst

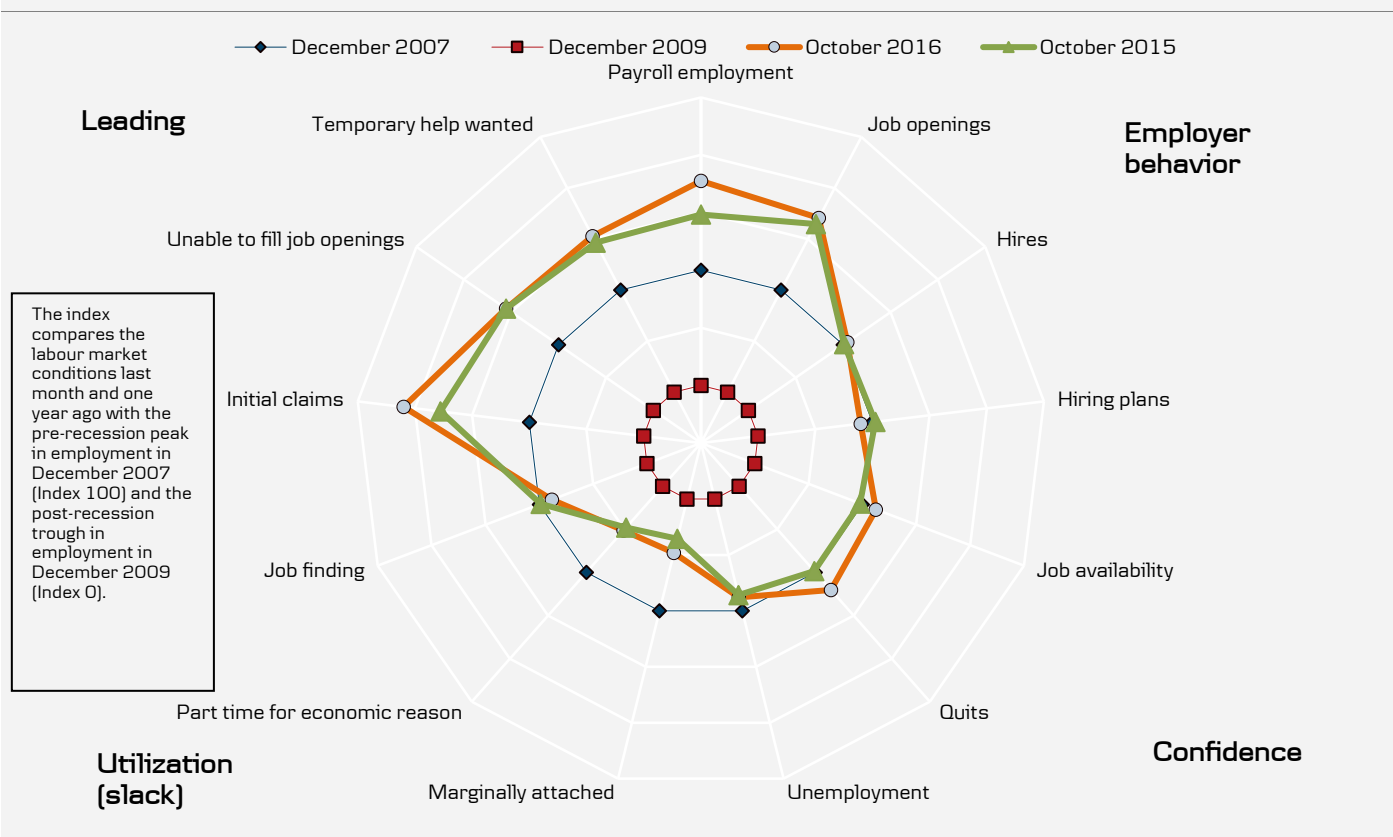
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US labour market in one chart

Labour market strong but some measures still suggest slack, claims historically strong – outward moves indicate stronger labour market



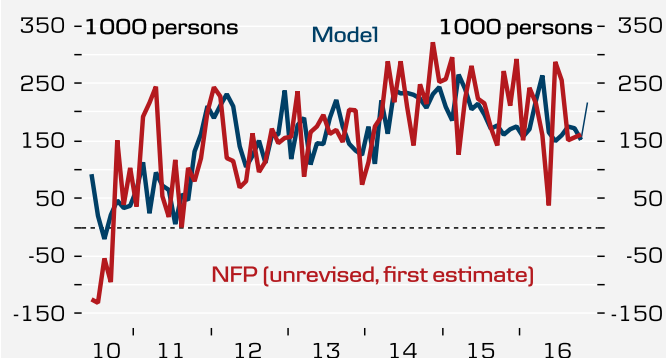
Note: the diagram shows the level of tightness of different US labour market key figures at different times, compared with the level of the same figures in December 2007 (index=100) and December 2009 (index = 0). Counter-cyclical figures (unemployment rate, jobless claims, marginally attached and working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

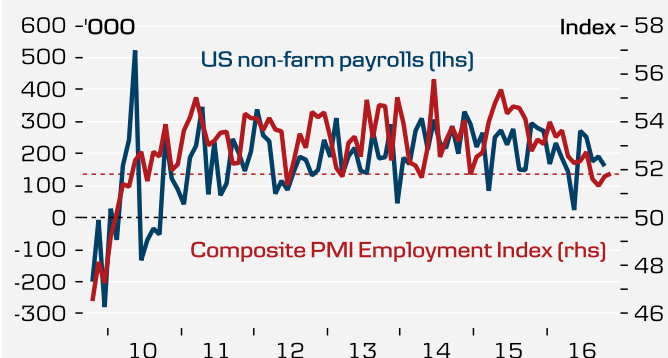
Models and leading indicators

Model points to job growth of just above 200,000



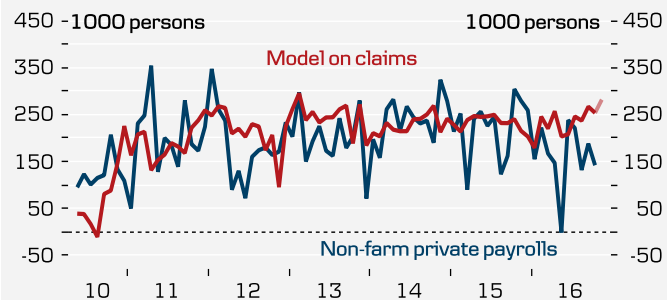
Source: Macrobond Financial, Danske Bank Markets calculations

PMI employment index suggests job growth around 140,000



Source: Macrobond Financial, Markit Economics, BLS

Low claims figures still suggest job growth close to 300,000, relationship between claims and job growth is weak currently



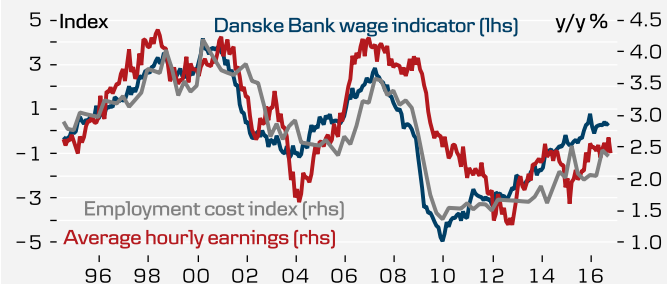
Source: Macrobond Financial, US Department of Labor, BLS

Small business hiring plans next three months



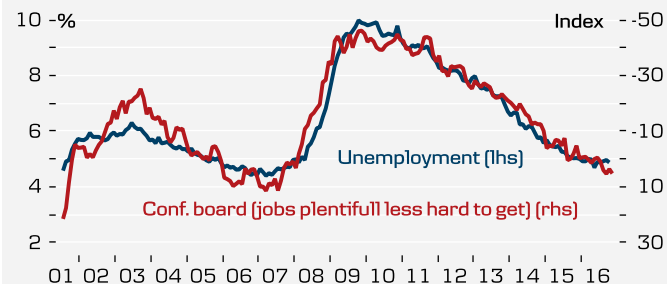
Source: Macrobond Financial, NFIB

Wage inflation is not set to accelerate



Source: BLS, Danske Bank Markets

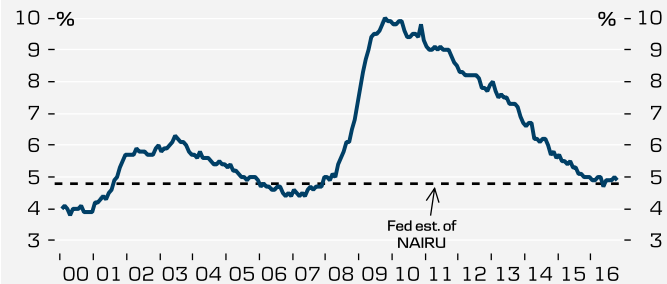
Worker confidence and unemployment rate



Source: BLS, Conference Board

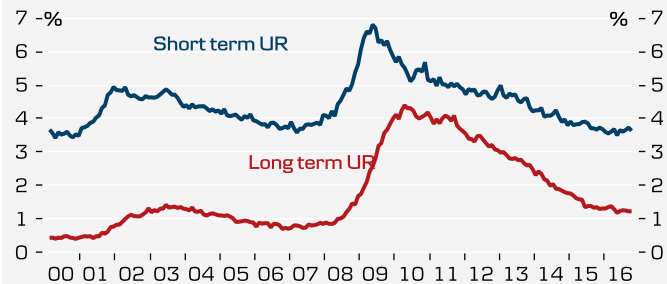
Unemployment measures

Unemployment rate more or less at NAIRU



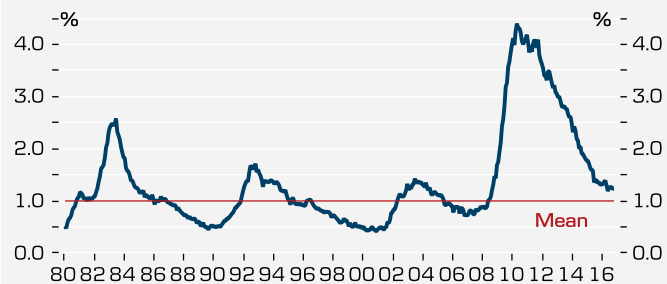
Source: Macrobond Financial, FOMC, BLS

Unemployment broken down by duration



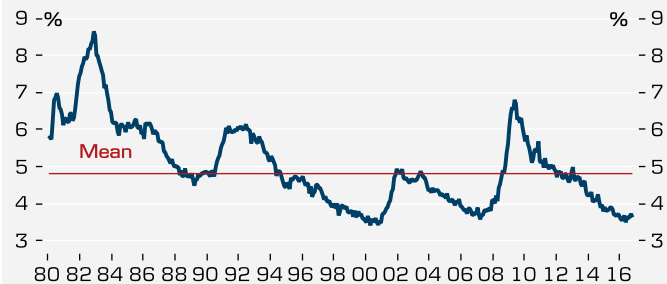
Source: Macrobond Financial, BLS

Long-term unemployment rate still higher than average



Source: Macrobond Financial, BLS

Short-term unemployment near historical low



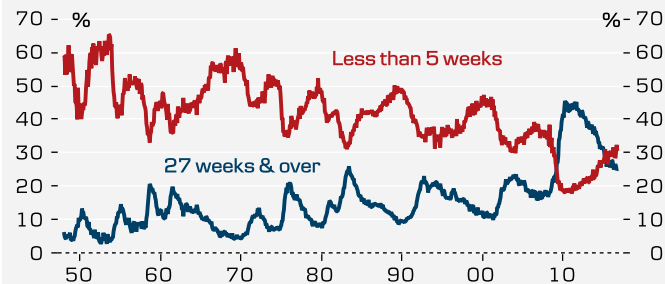
Source: Macrobond Financial, BLS

Long-term unemployment as % of total unemployed



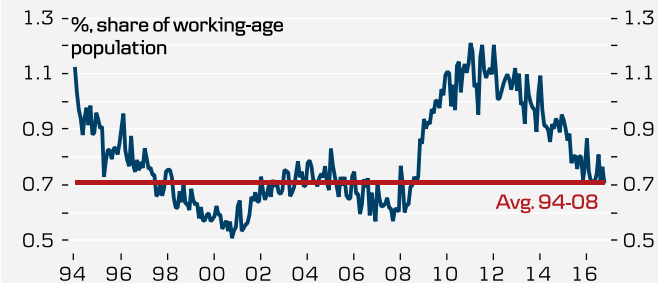
Source: Macrobond Financial, BLS

Distribution of duration of unemployment



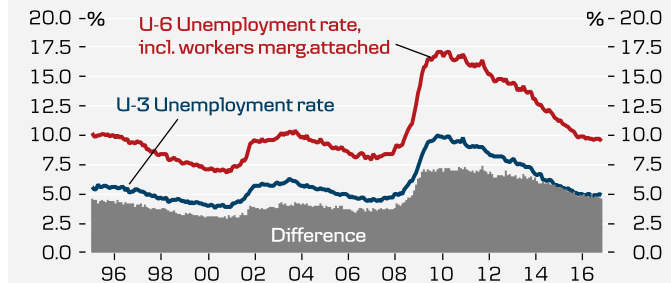
Source: Macrobond Financial, BLS

Marginally attached workers struggle to get down to pre-crisis levels. Suggests slack in labour market still exists



Source: Macrobond Financial, BLS

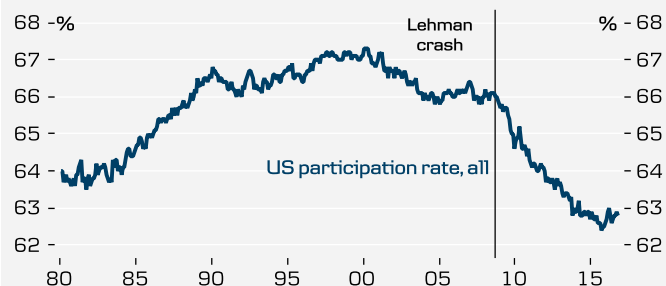
U6 flat for a year, suggests slack still persists in labour market



Source: Macrobond Financial, BLS

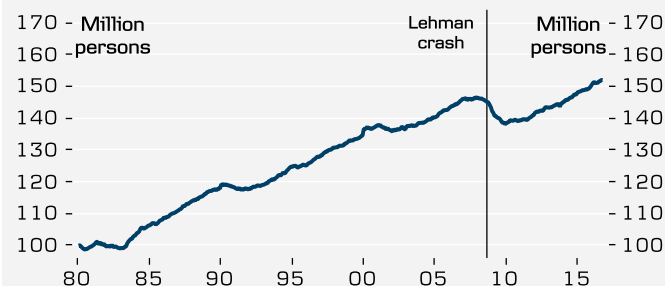
Participation

Can the participation rate get back above 63 on cyclicals?



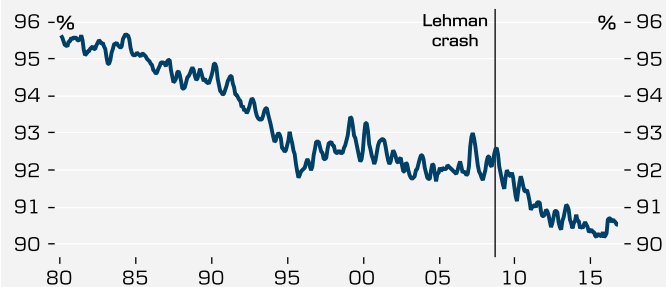
Source: Macrobond Financial, BLS

Total workforce, 16 years and over, (s.a.)
Down trending participation rate drag on labour force growth



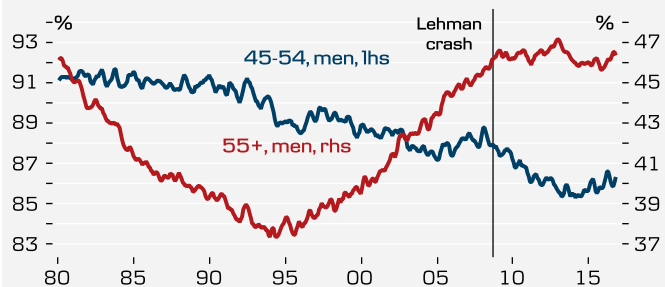
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

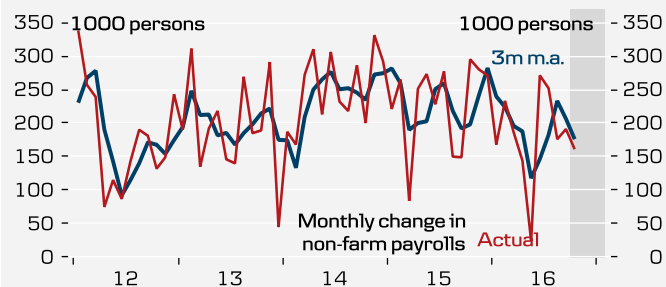
Participation rate, 45-54 and 55-plus, men



Source: Macrobond Financial, BLS

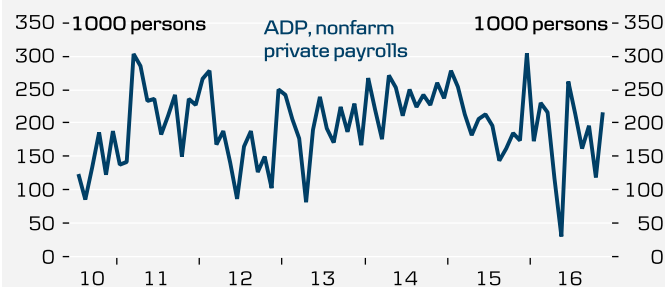
Employment measures

3M moving average lower now after summer noise



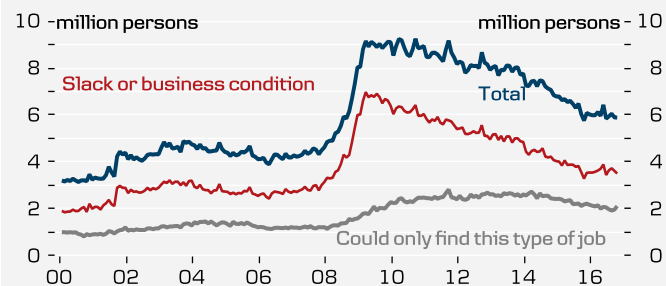
Source: Macrobond Financial, BLS

ADP private payrolls growth



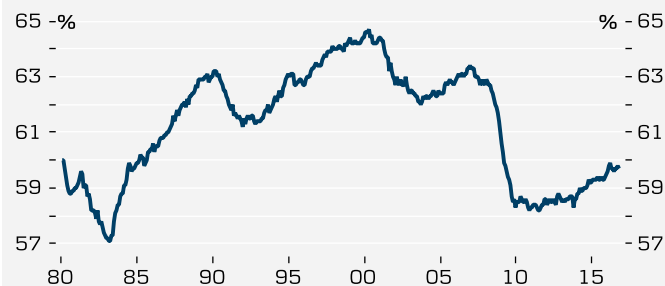
Source: Macrobond Financial, ADP

Still a relatively high number of part-time employed for economic reasons



Source: Macrobond Financial, BLS

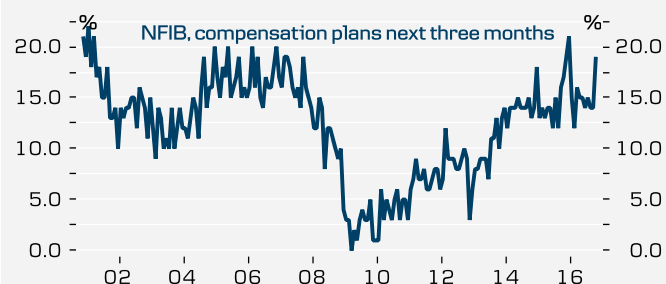
Employment to population ratio



Source: Macrobond Financial, BLS

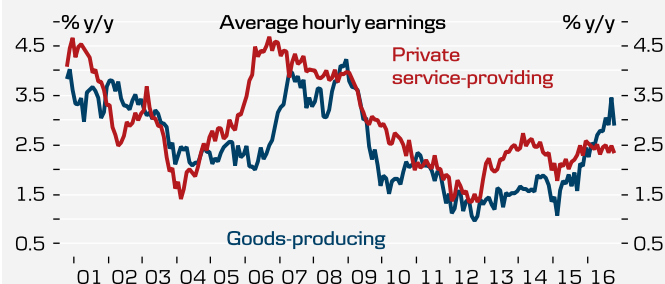
Wage growth and inflation

NFIB compensation plans



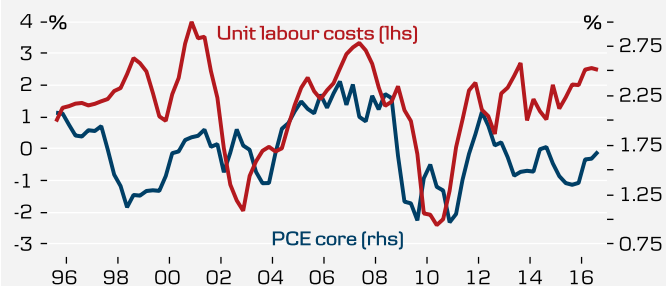
Source: Macrobond Financial, NFIB

Goods-producing wage growth has accelerated, suggests relatively tighter labour market in the manufacturing sector



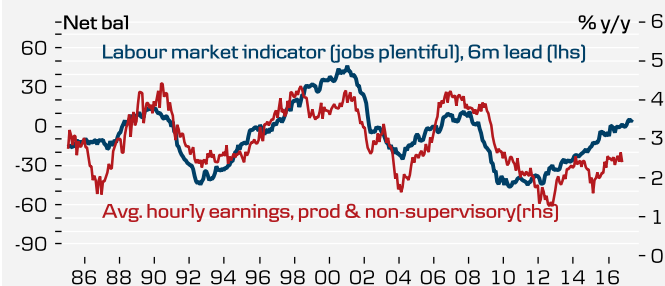
Source: Macrobond Financial, BLS

Unit labour costs putting upward pressure on core inflation



Source: Macrobond Financial, BLS, Census, BEA

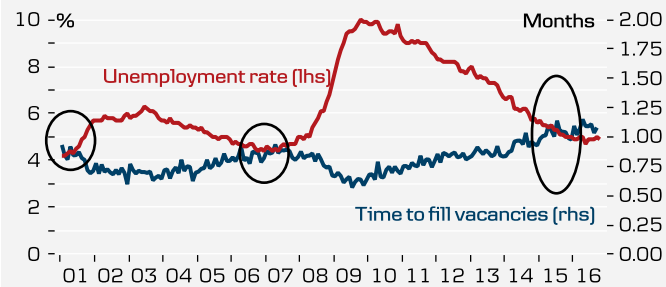
Worker confidence is slowly rising – will wages follow?



Source: Macrobond Financial, Conference Board, BLS

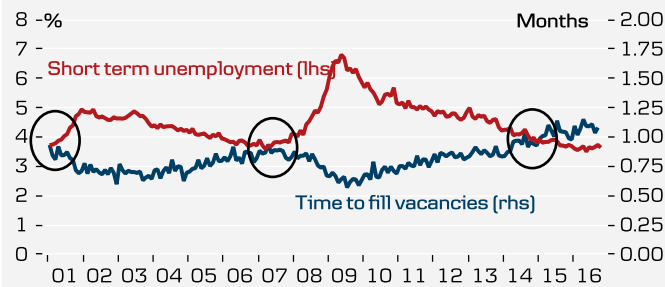
The employer's perspective

Unemployment and time to fill vacancies



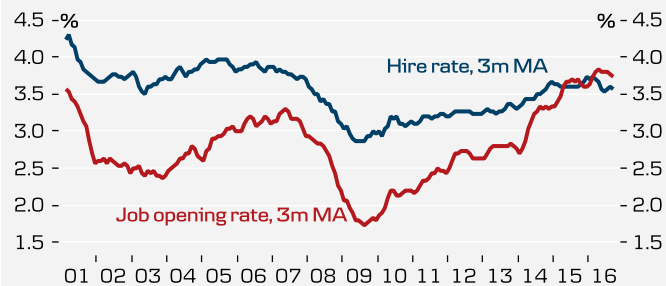
Source: Macrobond Financial, BLS

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

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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 Andreas Mey Kjøller, Assistant Analyst.

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None

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