Another soft report on the US job market raises the chances of a September Fed rate cut

PRIVATE BANKING

The US labour market is cooling down, and today's Employment report brought another confirmation of this trend. Job creations in the private sector have settled below 200k per month throughout Q2 and declined to 136k in June. The unemployment rate ticked up to 4.1%, its highest level of this expansion cycle. Only government jobs continued a solid upward trend, which may not be surprising in an electoral year.

The normalisation of the US labour market is one of the five key trends to watch for the next 6 months (cf. Syz H2 2024 Market Outlook: Normalisation ahead). Today's US Employment Report fits into this dynamic which is at the heart of our expectations for economic growth normalisation, softer inflationary pressures and central bank rate cuts.

Further labour market slowdown in June

The June Employment report released today clearly pointed to a continued slowdown in the US job market. The unemployment rate rose to 4.1%, its highest level since November 2021. Job creations in the private sector slowed to 136k in June, below expectations, after 193k in May. The number of jobs created in the previous two months was revised down by a cumulated 111k. Jobs in the manufacturing sector declined. The only sectors exhibiting strong job creation were the healthcare and public sector, with government jobs up 70k in June and extending the steady upward trend at play since 2023.

Those developments fit into the broader trend of gradual economic and job growth slowdown that has characterised the US economy in recent months. In parallel, wage growth is gradually slowing down as well, a sign that the easing in labour market tensions is finally undermining wages and inflationary pressures, which have been a concern for the Fed in the past three years.

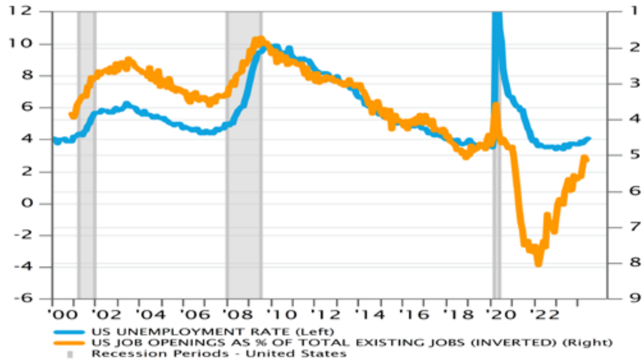
A broader trend already visible in several metrics

Indeed, labour shortages in many sectors have been a remarkable feature of the past three years. Demographic dynamics and surging demand for service sector jobs have driven the unemployment rate to record lows in the US, and wage growth to levels not seen in decades. However, over the past few months, all indicators have pointed to a gradual easing in tensions on the labour market. Employment remains generally plentiful in the US and continues to support domestic consumption, but the job market is coming close to a balance between the demand from businesses and the number of available workers.

Weekly new jobless claim fillings have gradually risen in 2024 (238k in the last week of June vs 200k at the beginning of the year) and the total number of people registered for unemployment benefits is at its highest level since 2021 and the reopening of the economy (+6% in 2024).

The number of Job Openings has been declining since its peak of 2022 and, notwithstanding the small uptick released earlier this week due to government jobs, is now close to pre-pandemic levels when compared to the total number of jobs in the US economy. The unprecedented surge in job vacancies witnessed in 2021, the clearest measure of the imbalance of the labour market, is now about to be offset.

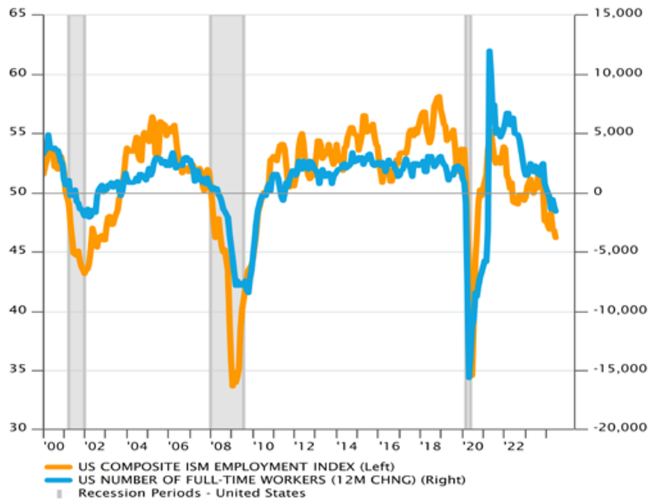
As job vacancies normalise, the unemployment rate slowly rises



Businesses and consumer surveys have also pointed to softening dynamics in the US job market: the employment component of the ISM Services is below 50 since February, signalling a majority of businesses in the sector reducing their labour force rather than increasing it. Hiring plans among small businesses have normalised. In parallel, household perceptions of the job market, while still clearly positive, are slowly normalising as well. The share of consumers finding jobs "plentiful" and expecting "more jobs" in the coming months is slowly declining.

Last but not least, the number of part-time workers has recently spiked to historically high levels, while the number of full-time workers has been slowly trending lower over the past year.

Surveys and full-time jobs are pointing to fading momentum



Paving the way for some Fed rate cuts after the summer

The combination of those indicators clearly points to a softening in labour market tensions, and an ongoing normalisation of the US job market that should extend in the second half of the year.

Interestingly, the balance of concerns appears to have shifted, among Fed members, from previous upside risks on inflation toward the risk of seeing an unwarranted deterioration in unemployment should economic activity prove to be softer than expected. Mr Powell said this week that while the labour market remains strong, it is “cooling off over time as hoped” as “the Fed sees a substantial move toward better labor balance”. He also mentioned that he would be happy if unemployment stays right where it is, and that an unexpected labour market weakening could prompt a monetary policy reaction from the Fed.

Taking those views into consideration, today’s report could be deemed as Goldilocks for the Fed and the economy: cooling down from a too hot position, but not cold yet. As job creation remains positive, even in the private sector, and the unemployment rate is still low and consistent with a strong employment situation, the Fed has no reason to panic. The economy appears on track for the expected “soft landing”. The reduction in job market tensions and slowing wage growth are certainly reassuring, suggesting some disinflation that could enable the Fed to cut rates before the end of the year. Provided inflation and employment data extend their recent slowing trend during the summer, a rate cut in September appears possible (75% probability according to future markets after today’s data release). If the data show more volatility around the slowing trend, the Fed may delay cutting rates until after the election in November. However, the trend is clear—it’s just a matter of timing.

For further information

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