

Monitor

US labour market: downside risk to December payrolls

Job report preview

- **We expect non-farm payrolls to show an increase of 195,000 in December**, below the consensus estimate at 240,000. **The expectation of a weaker number in December is due mainly to the very strong reading in November at 321,000.** Our trend model points to 235,000. However, non-farm payrolls are volatile and a strong number last time points towards a bit weaker number this month. Furthermore, the fall in ISM figures supports the December number being less than the average for the past six months (258,000). We experienced a significant fall in the December non-farm payroll from 274,000 in November 2013 to 84,000 in December 2013.
- **Once again, we forecast the unemployment rate will stay unchanged at 5.8% (consensus 5.7%) as we look for a rise in the labour force to compensate for robust employment.** However, the trend in unemployment is clearly down and we could very well hit the Fed's long-term unemployment rate of 5.4% as early as Q2.
- **Hourly earnings should also be followed closely, as this is one of the key indicators for judging how much the US labour market is tightening.** Recently there have been signs of rising wage growth after a long period of low wage pressure. The Employment Cost Index has shown stronger momentum and the hourly earnings in the job report rose 0.4% m/m in November. We look for a rise of 0.2% m/m in December in line with consensus.

General conditions and outlook

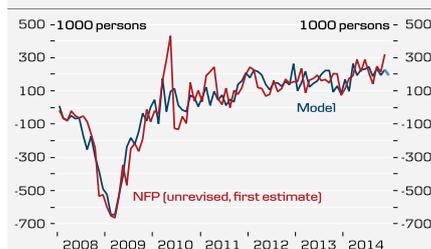
- **We look for employment growth to average 260,000 per month over the next year, which is not far from the current pace.** Job growth has been supported by a combination of strong GDP growth and low labour productivity over the past two quarters. Looking ahead, we expect economic activity to continue to support a further healing of the labour market as we look for GDP growth at 3.0% next year. Labour productivity is running considerably below potential and we expect the gap to close gradually over coming years. This implies that higher activity is needed to keep job growth at its current level in coming quarters.
- **With continued employment gains above the long-term pace, the labour market will continue to tighten.** The U6 unemployment measure has fallen closer to normal levels and the short-term unemployment rate has reached low levels. The participation rate has continued lower contrary to expectations that people would return to the labour market as job opportunities improved. Part of the decline is due to demographic factors but this cannot explain the whole decline.
- **We continue to look for the first hike from the Fed in June**, as the Fed is moving closer to the full employment target and the gradual tightening of the labour market is set to increase medium-term price pressure.

Danske Bank forecasts (November)

	DB	Consensus	Prior
Non-farm Payrolls	195	240	321
-Private	175	230	314
-Manufacturing	-	15	28
-Service	-	-	266
-Construction	-	-	20
-Mining and logging	-	-	0
-Government	20	10	7
Unemployment rate	5,8%	5,7%	5,8%

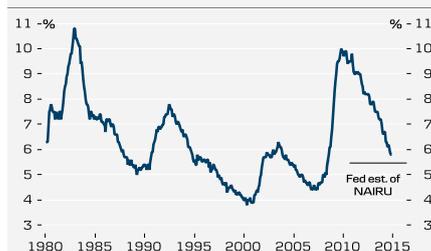
Source: Macrobond Financial, Danske Bank
Markets calculations

Weaker non-farm payroll in December due to pay-back from strong November number



Source: Macrobond Financial, BLS

Closing in on the Fed's NAIRU estimate



Source: Macrobond Financial, BLS

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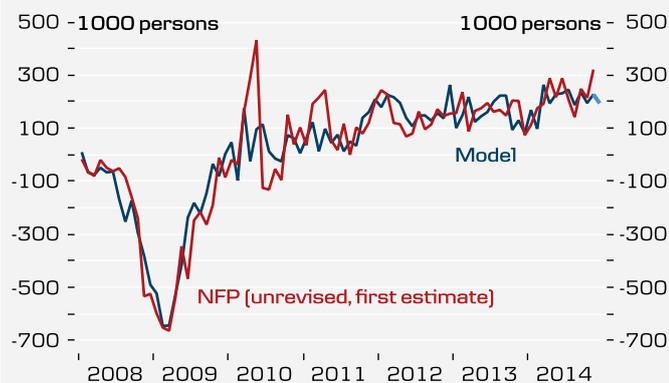
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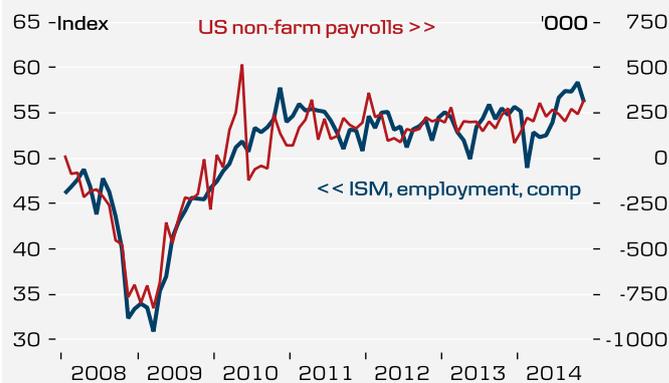
Models and leading indicators

Payrolls model



Source: Macrobond Financial, Danske Bank Markets calculations

ISM employment and US non-farm payrolls



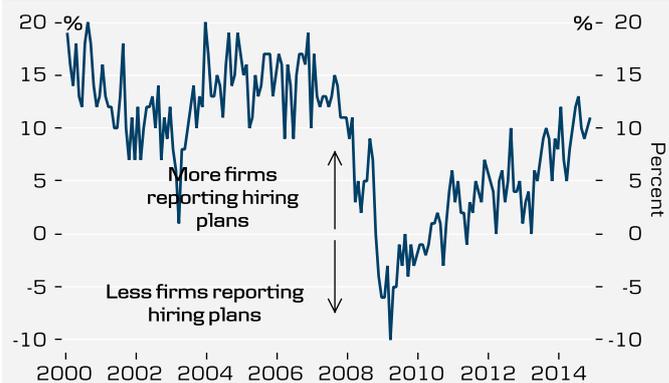
Source: Macrobond Financial, ISM, BLS

Initial jobless claims



Source: Macrobond Financial, US Department of Labor

Small business hiring plans next 3 months



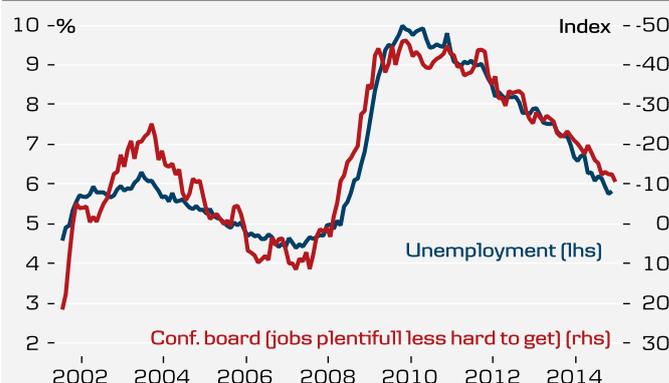
Source: Macrobond Financial, NFIB

Wage pressure and unemployment rate



Source: Macrobond Financial, Danske Bank Markets calculations

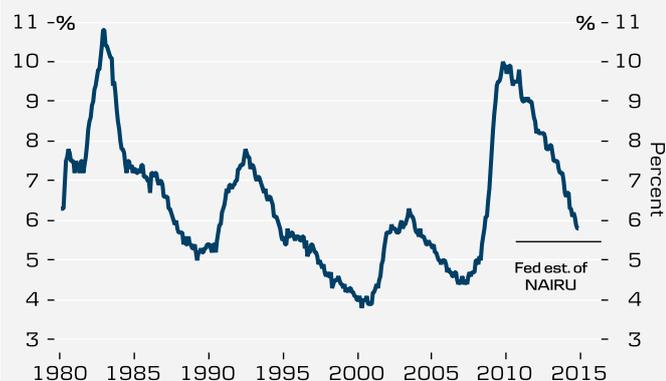
Worker confidence and unemployment rate



Source: Macrobond Financial

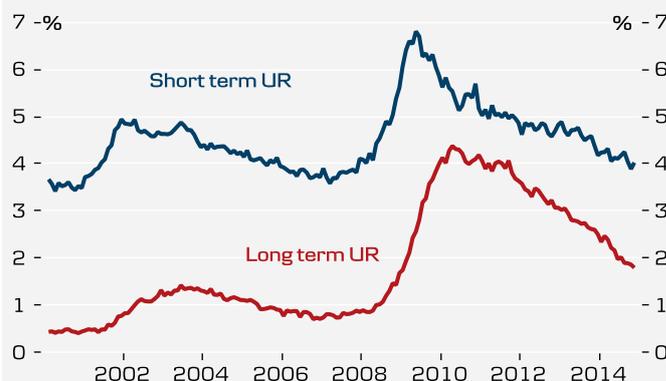
Unemployment measures

Unemployment rate



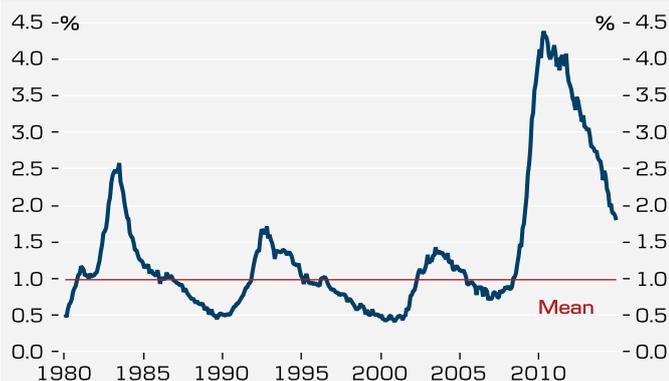
Source: Macrobond Financial, BLS

Unemployment decomposed by duration



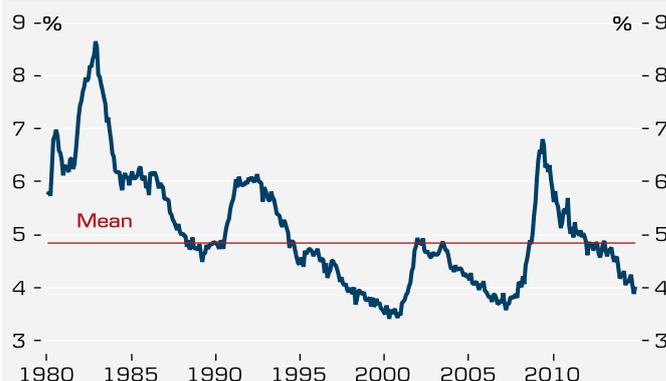
Source: Macrobond Financial, BLS

Long-term unemployment rate



Source: Macrobond Financial, BLS

Short-term unemployment rate



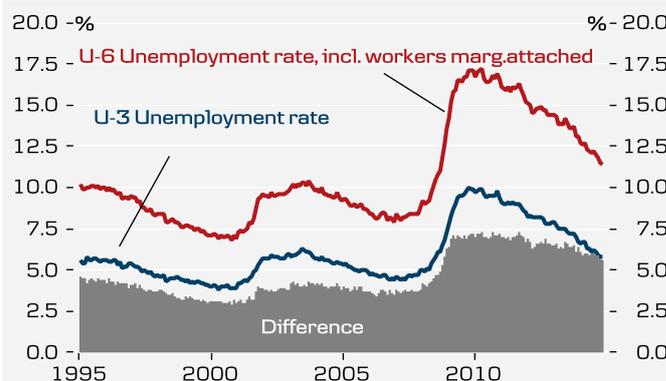
Source: Macrobond Financial, BLS

Long-term unemployment as % of total unemployed



Source: Macrobond Financial, BLS

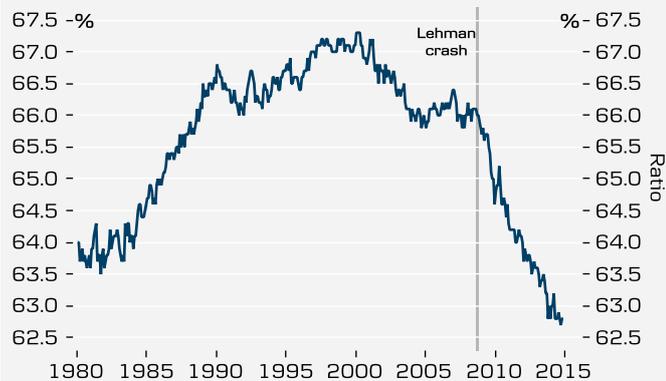
Marginally attached workers



Source: Macrobond Financial, BLS

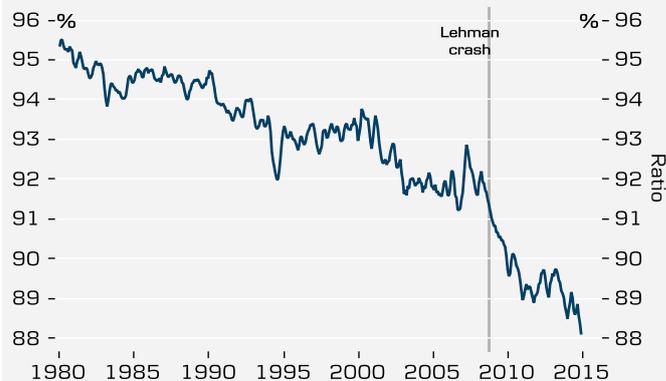
Participation

Participation rate, all



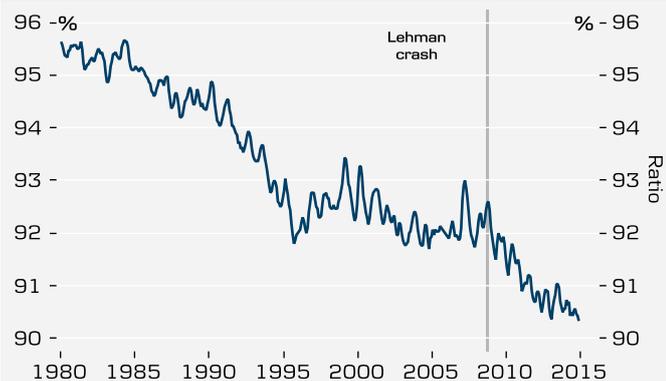
Source: Macrobond Financial, BLS

Participation rate, 25-34, men



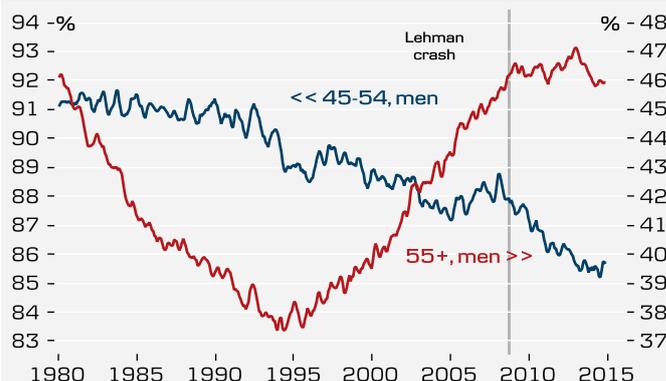
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

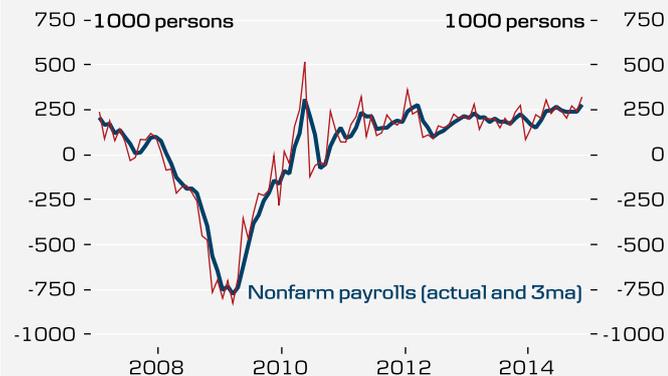
Participation rate, 45-54 and 55+, men



Source: Macrobond Financial, BLS

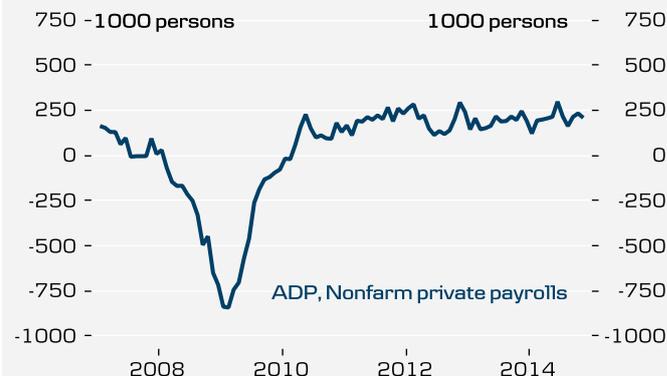
Employment measures

Non-farm payroll



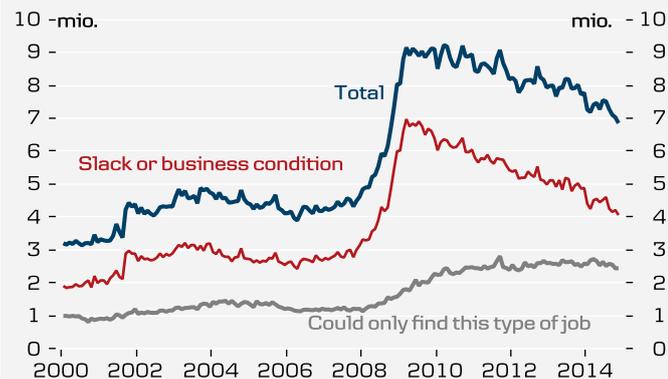
Source: Macrobond Financial

ADP private payrolls



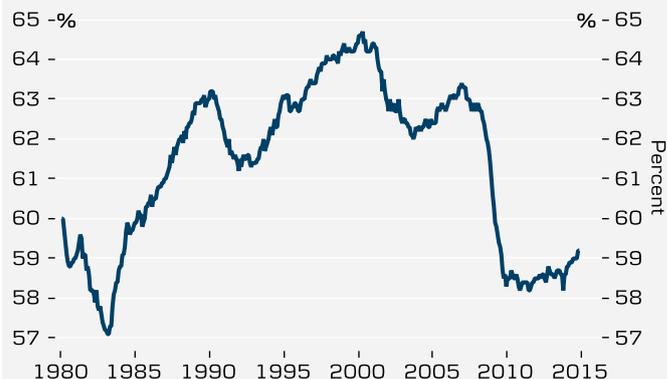
Source: Macrobond Financial

Part-time employed for economic reasons



Source: Macrobond Financial, BLS

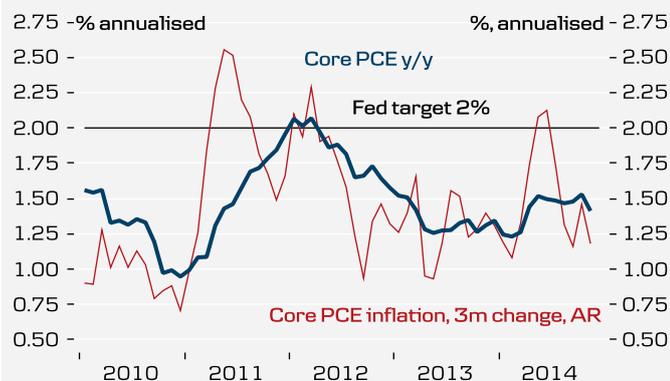
Employment to population ratio



Source: Macrobond Financial, BLS

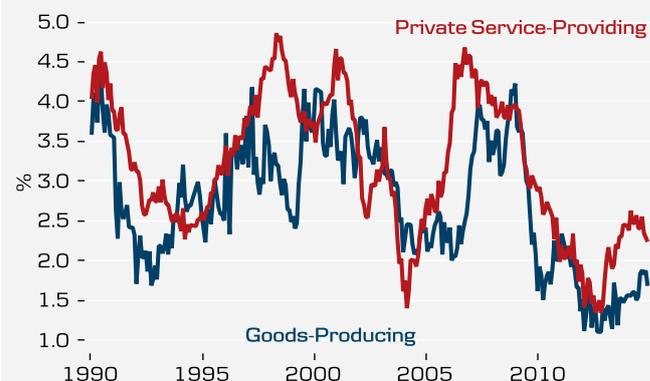
Wage growth and inflation

PCE core inflation remains well below Fed target



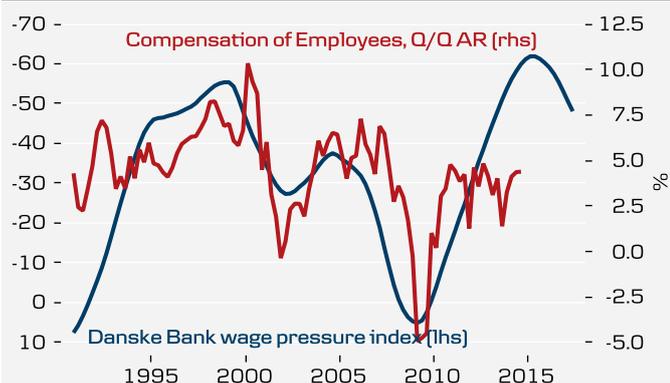
Source: Macrobond Financial, BEA

Hourly earnings, production and non-supervisory



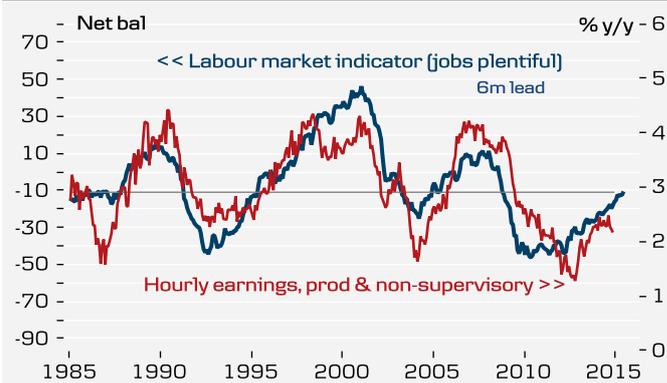
Source: Macrobond Financial, BLS

Fundamentals support higher wage growth



Source: Macrobond Financial, BLS

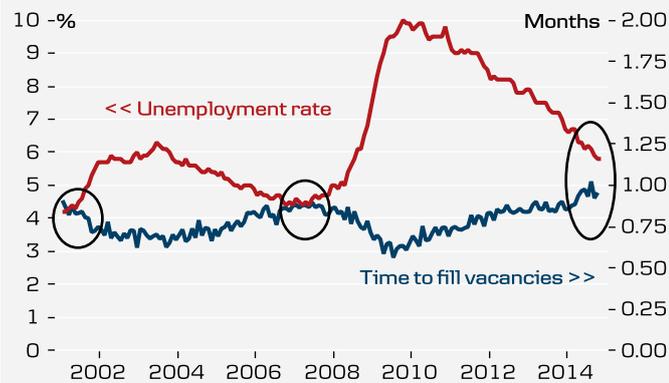
Worker confidence is slowly rising - will wages follow?



Source: Macrobond Financial, Conference Board, BLS

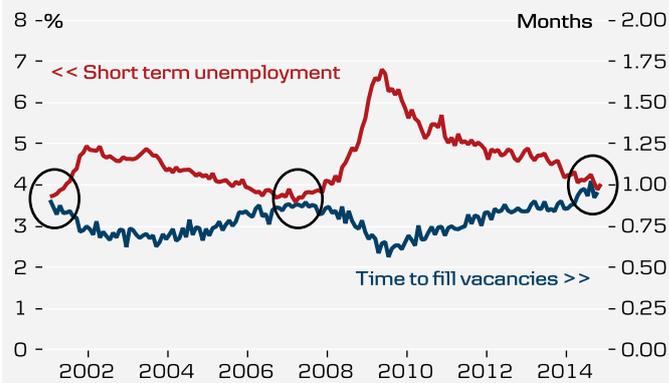
The employers' perspective

Unemployment and time to fill vacancies



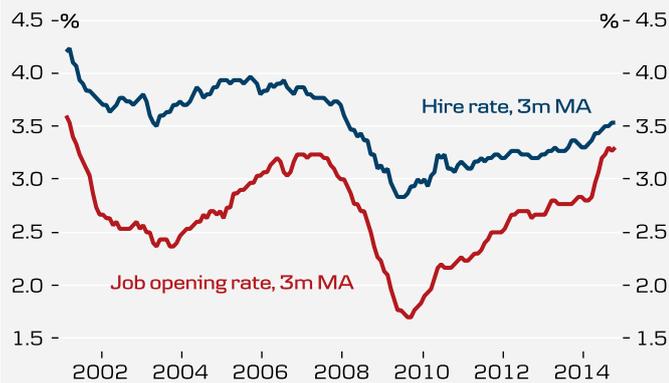
Source: Macrobond Financial, BLS

Short-term unemployment and time to fill vacancies



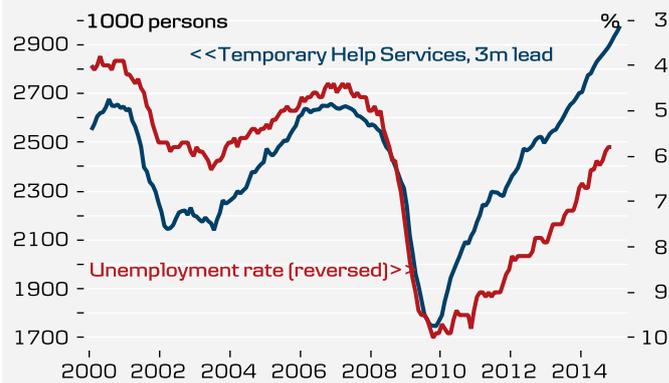
Source: Macrobond Financial, BLS

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



Source: Macrobond Financial, BLS

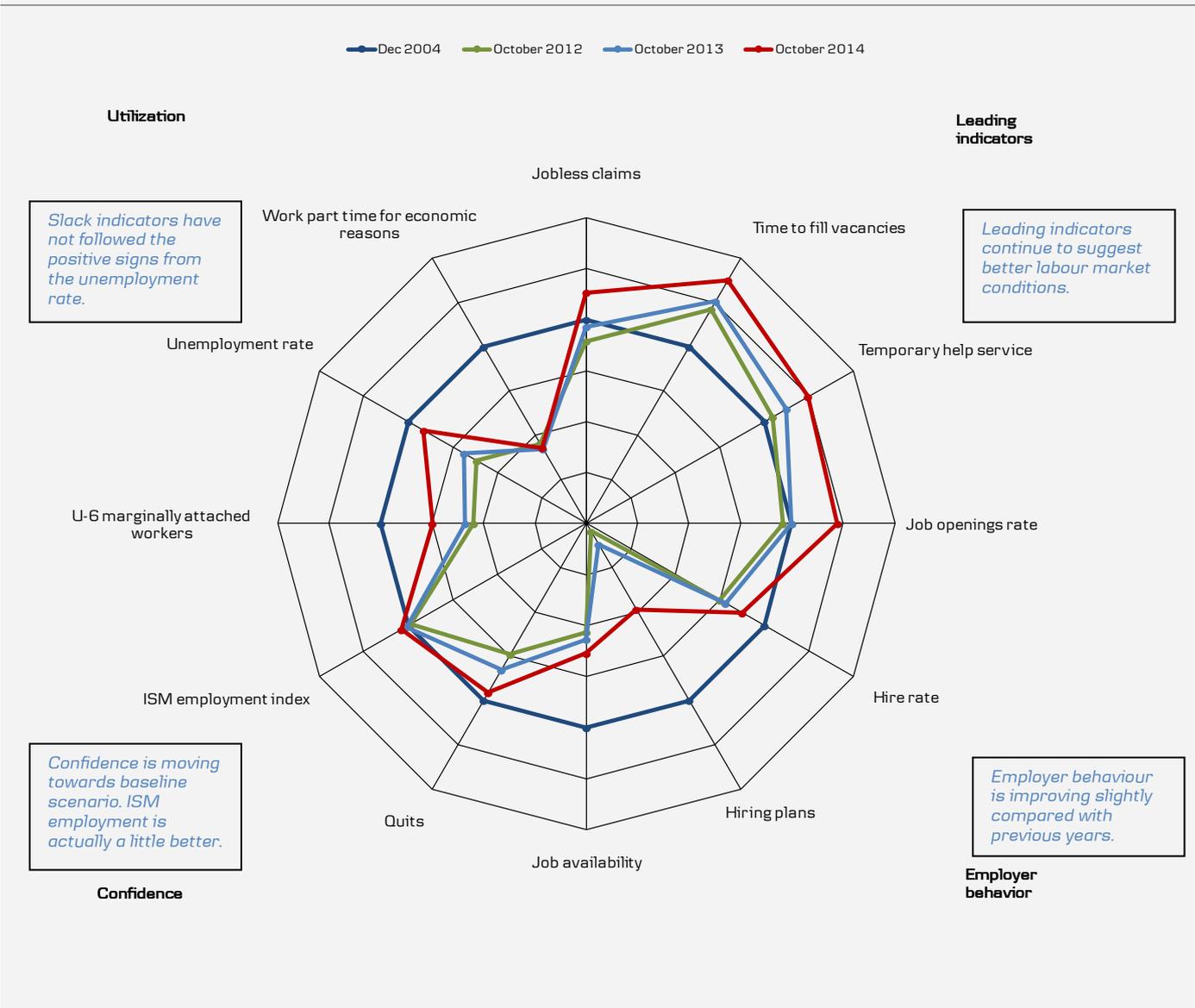
Temporary employment and unemployment



Source: Macrobond Financial, BLS

US labour market in one chart

Signs of labour market improvements in leading indicators while utilisation still lags (outward moves indicate stronger labour market)



Note: The figure 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 2004 (index=100). Counter cyclical figures (unemployment rate, jobless claims, job availability, U-6 UR, work 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. The dark blue line correspond to the level of December 2004.
 Source: BLS (JOLTS), Macrobond Financial

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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 Allan Von Mehren, Chief Analyst, and Louise Randrup Noe, Assistant Analyst.

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