

6 January 2015

# 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

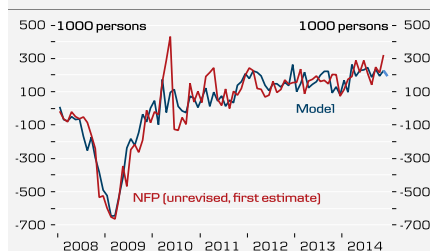
- **We look for employment growth to average 260,000 per month over the next year, which is not far from the current pace.** Job growth has been supported by a combination of strong GDP growth and low labour productivity over the past two quarters. Looking ahead, we expect economic activity to continue 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%

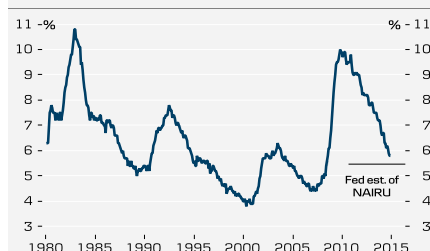
Source: Macrobond Financial, Danske Bank  
Markets calculations

### 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

### Chief Analyst

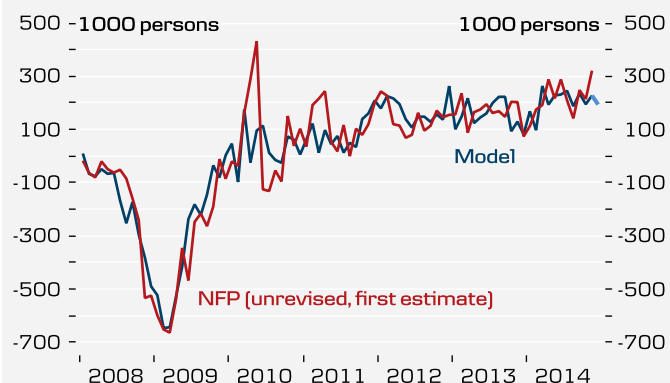
Allan von Mehren  
+45 45128055  
alvo@danskebank.dk

### Assistant Analyst

Louise Randrup Noe  
lono@danskebank.dk

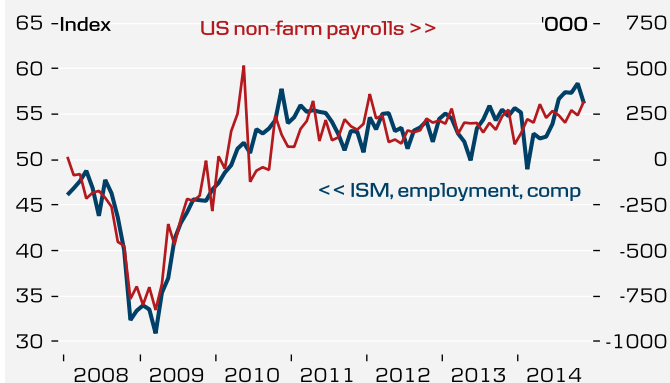
# Models and leading indicators

Payrolls model



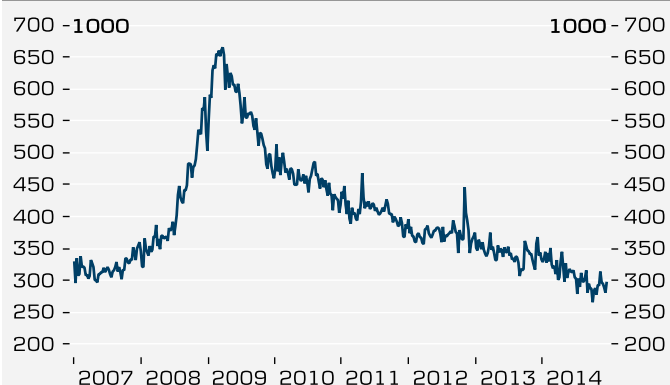
Source: Macrobond Financial, Danske Bank Markets calculations

ISM employment and US non-farm payrolls



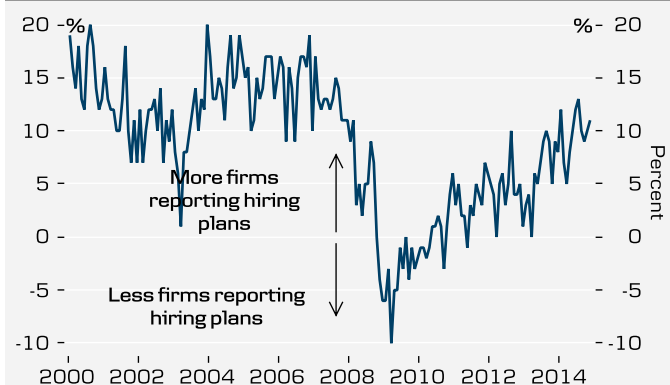
Source: Macrobond Financial, ISM, BLS

Initial jobless claims



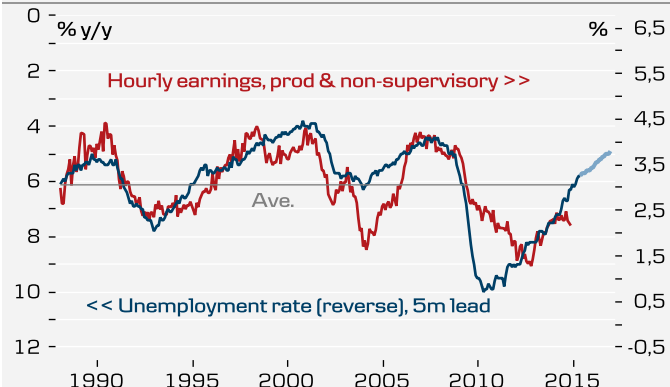
Source: Macrobond Financial, US Department of Labor

Small business hiring plans next 3 months



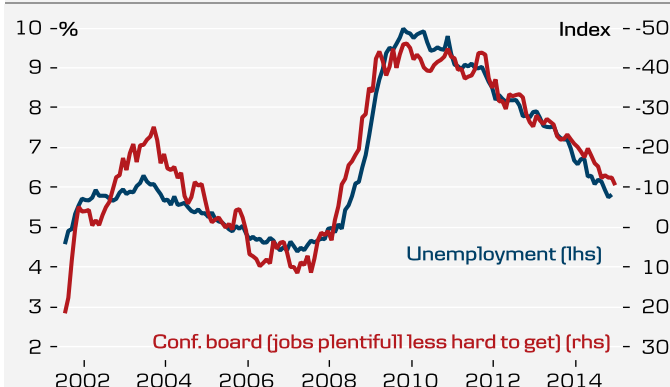
Source: Macrobond Financial, NFIB

Wage pressure and unemployment rate



Source: Macrobond Financial, Danske Bank Markets calculations

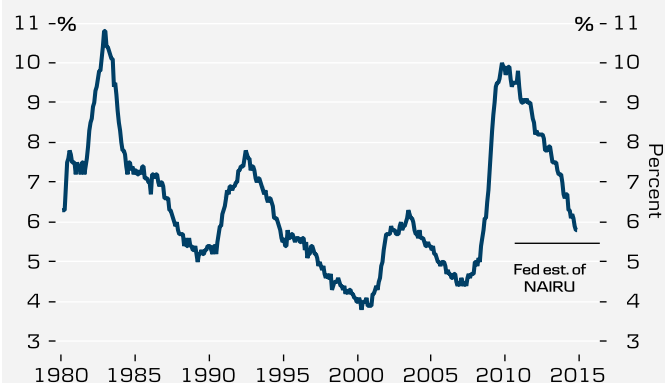
Worker confidence and unemployment rate



Source: Macrobond Financial

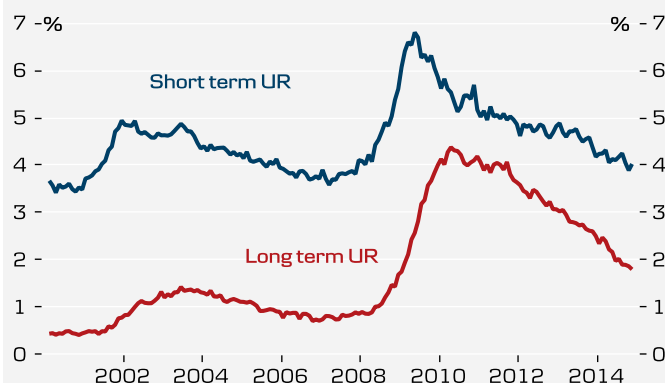
# Unemployment measures

Unemployment rate



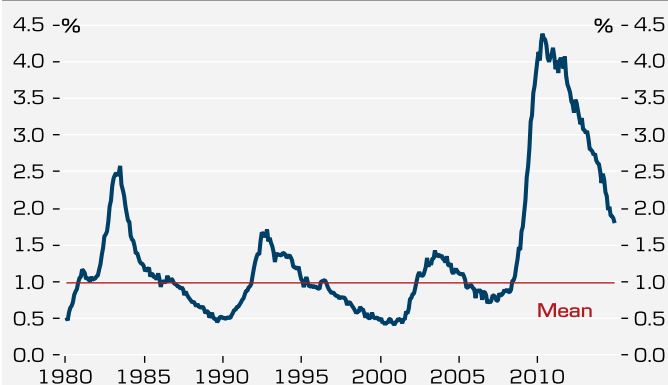
Source: Macrobond Financial, BLS

Unemployment decomposed by duration



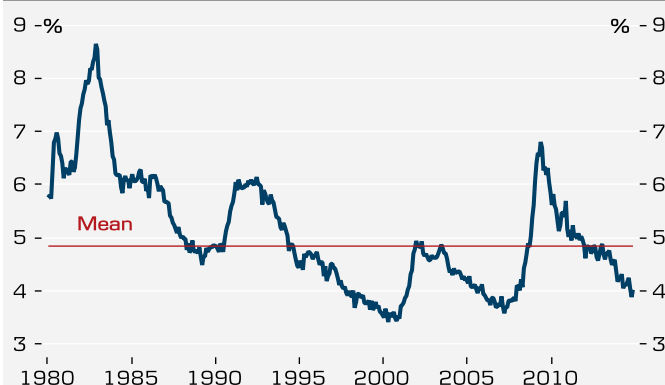
Source: Macrobond Financial, BLS

Long-term unemployment rate



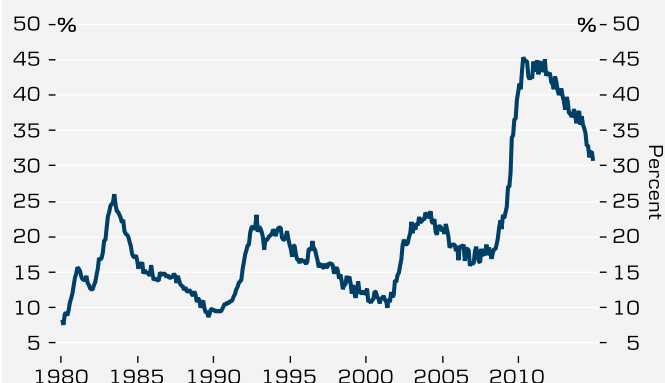
Source: Macrobond Financial, BLS

Short-term unemployment rate



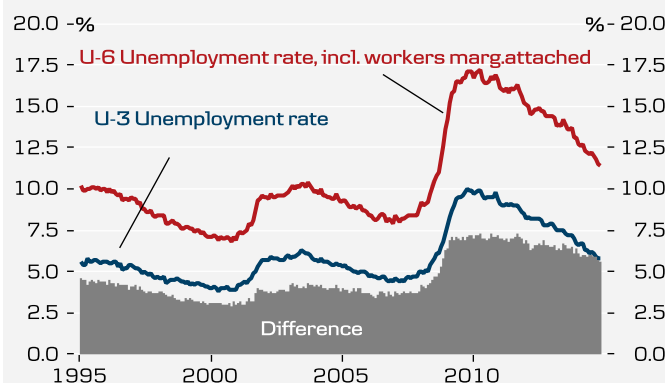
Source: Macrobond Financial, BLS

Long-term unemployment as % of total unemployed



Source: Macrobond Financial, BLS

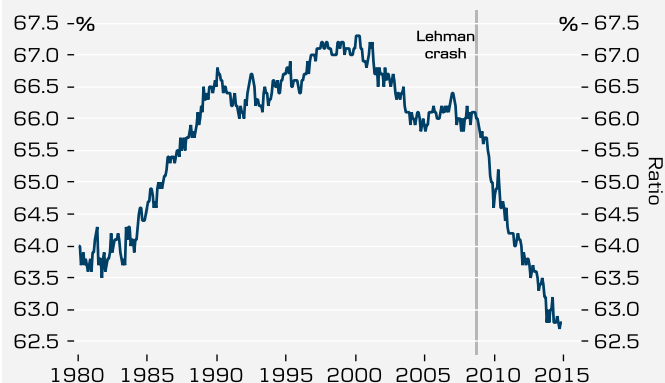
Marginally attached workers



Source: Macrobond Financial, BLS

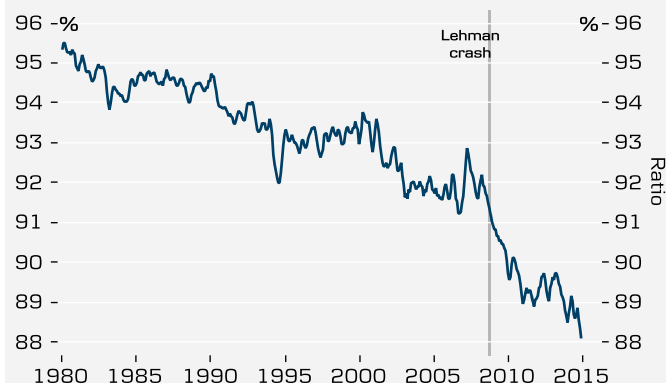
# Participation

Participation rate, all



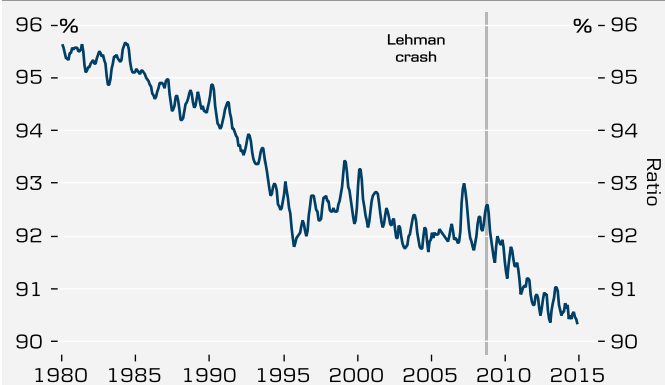
Source: Macrobond Financial, BLS

Participation rate, 25-34, men



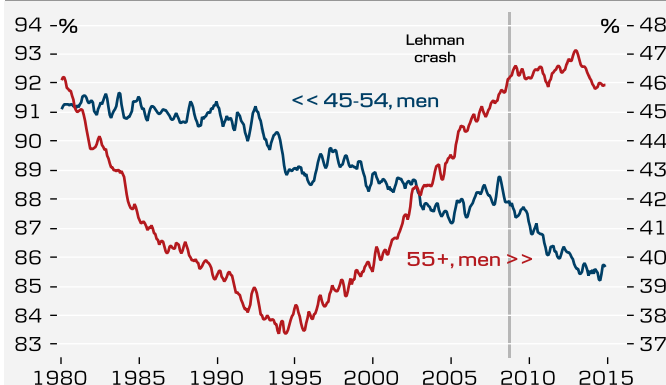
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

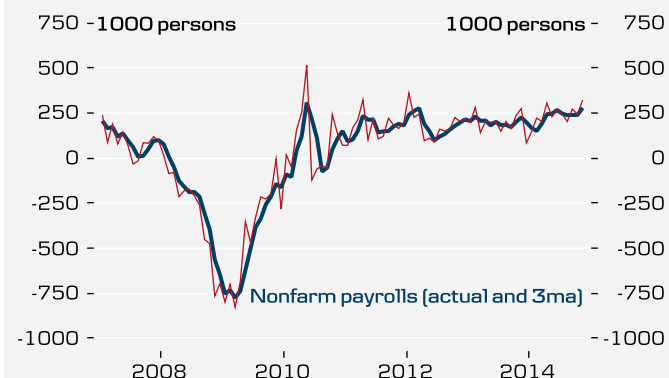
Participation rate, 45-54 and 55+, men



Source: Macrobond Financial, BLS

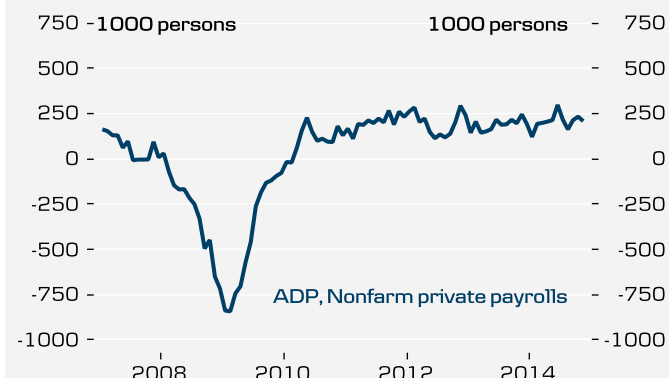
# Employment measures

## Non-farm payroll



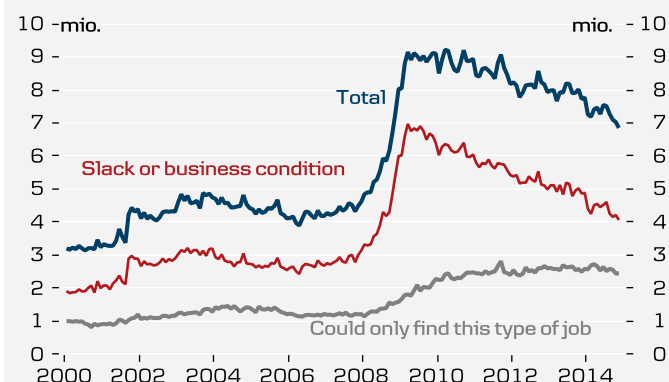
Source: Macrobond Financial

## ADP private payrolls



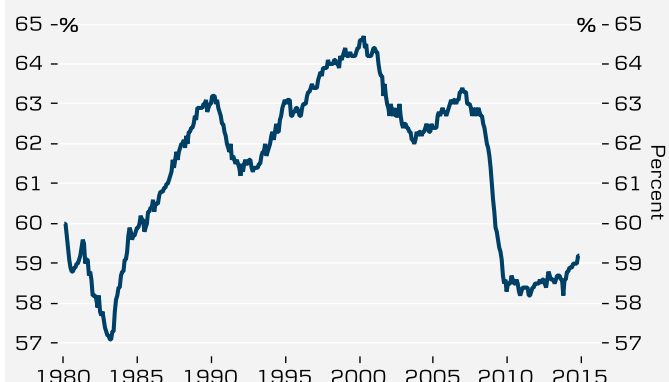
Source: Macrobond Financial

## Part-time employed for economic reasons



Source: Macrobond Financial, BLS

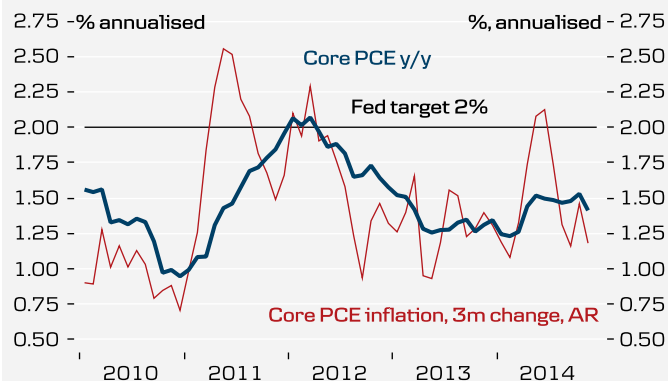
## Employment to population ratio



Source: Macrobond Financial, BLS

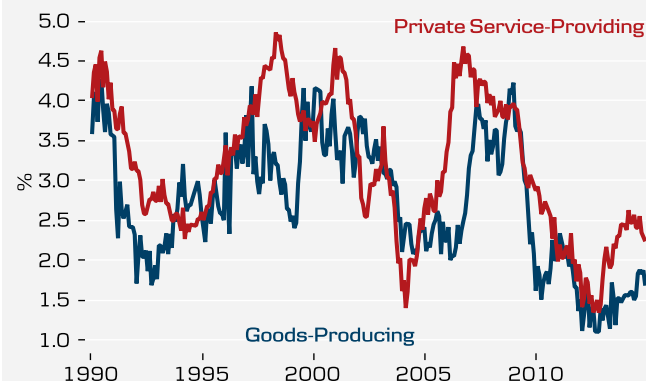
# Wage growth and inflation

## PCE core inflation remains well below Fed target



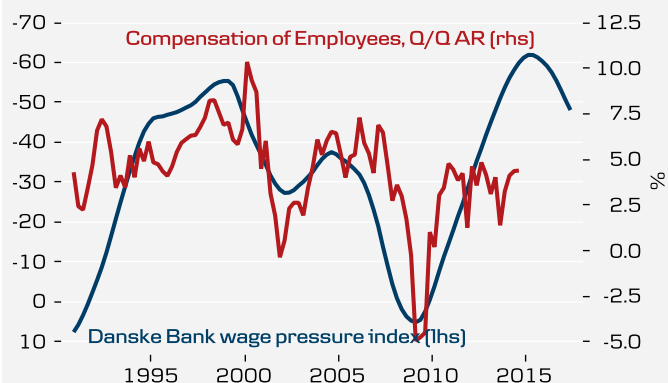
Source: Macrobond Financial, BEA

## Hourly earnings, production and non-supervisory



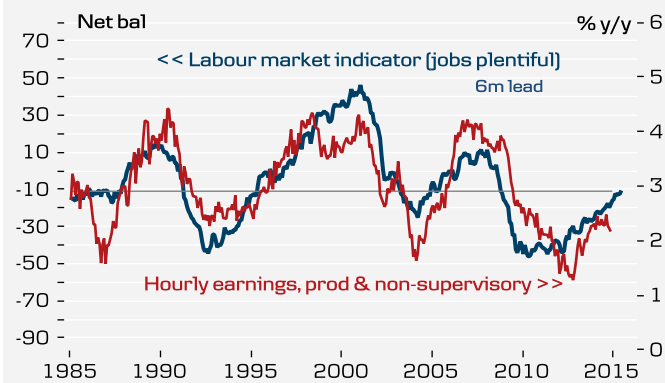
Source: Macrobond Financial, BLS

## Fundamentals support higher wage growth



Source: Macrobond Financial, BLS

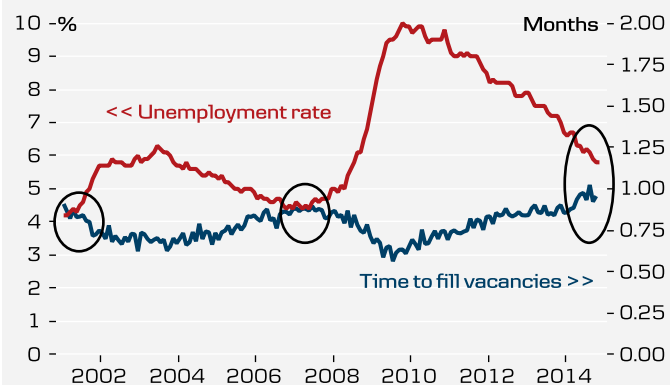
## Worker confidence is slowly rising - will wages follow?



Source: Macrobond Financial, Conference Board, BLS

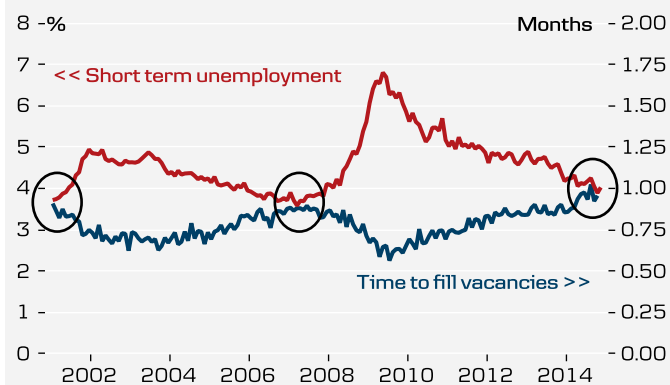
# The employers' perspective

Unemployment and time to fill vacancies



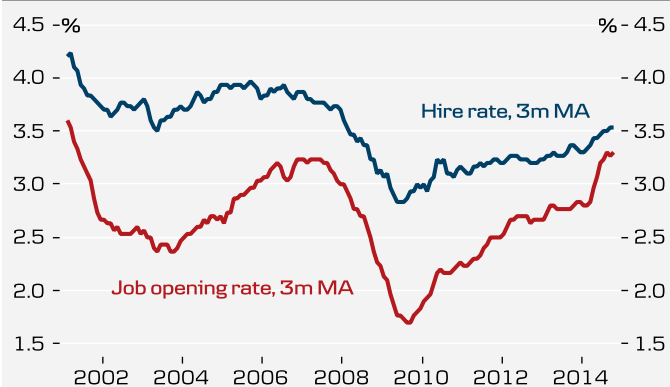
Source: Macrobond Financial, BLS

Short-term unemployment and time to fill vacancies



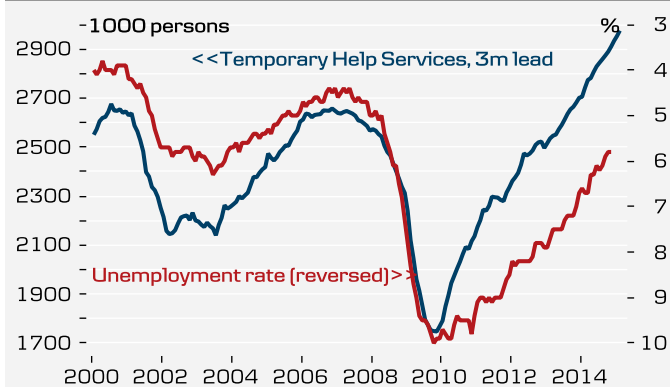
Source: Macrobond Financial, BLS

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



Source: Macrobond Financial, BLS

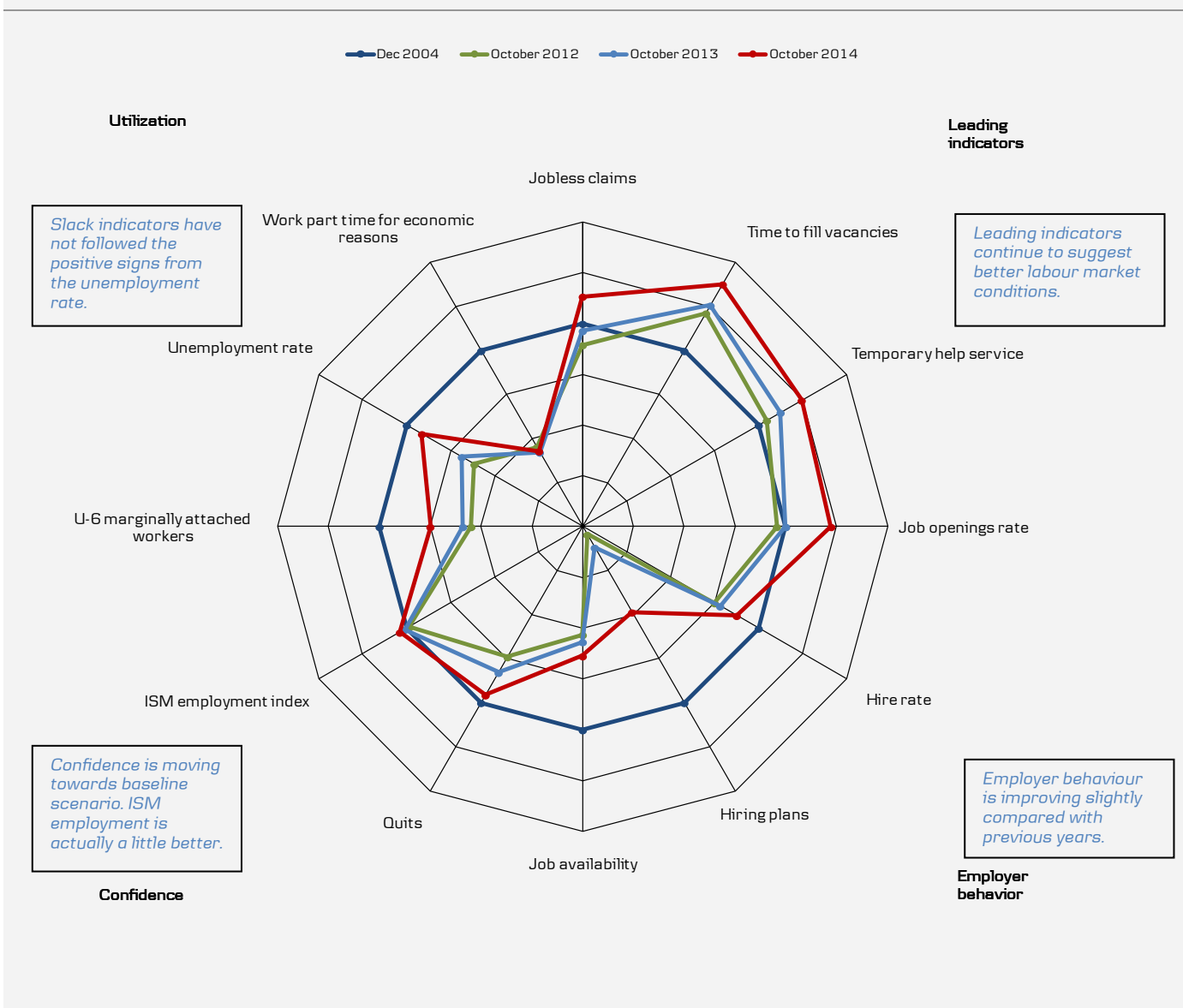
Temporary employment and unemployment



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



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

### Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in this research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

### Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

The research reports of Danske Bank are prepared in accordance with the Danish Society of Financial Analysts' rules of ethics and the recommendations of the Danish Securities Dealers Association.

### Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

### Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

### Risk warning

Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

### Date of first publication

See the front page of this research report for the date of first publication.

## General disclaimer

This research has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change, and Danske Bank does not

undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

## Disclaimer related to distribution in the United States

This research report is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.