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Global Markets Research

Research Alert

NFP: Job growth finally accelerated in June

- **Employment soared in hospitality, retail & education sectors**
- **Continued weakness in manufacturing & construction**
- **Labour shortage may exert upward pressure on wage growth**

Background

Nonfarm payrolls rose 850k in June, surpassing the consensus forecast of 720k. This marked NFP's best month in nearly a year after two months of unimpressive growths. April and May's jobs were collectively revised higher by 15k, bringing the total net gains to 15.6mil for the past 14 months. Compared to February last year, prior to the pandemic shock, total employment remained 6.8 million lower.

Hospitality and retail boosted by pent-up demand

Job growth was broad-based across the private service-providing sector, although still very much concentrated in the leisure and hospitality sector (+342k) which made up 40% of the headline gains. The retail sector (+67.1k) was also particularly strong, alongside some decent gains in wholesale trade (+21.3k). Government employment jumped 188k thanks to the notable increase in local government education(+155k) as well as state government education (+75k). Private education jobs also rose 39k amid higher demand for summer schools; there were fewer end-of-school-year layoffs normally seen this time of the year.

The manufacturing sector recruited 15k employees, a relatively modest gain. Construction jobs fell for the third month (-7k), again driven by the losses in the non-residential specialty trade sector. Both sectors continued to struggle with material shortages and supply chain bottlenecks.

Labour inactivity remained high

The unemployment rate rose slightly from 5.8% to 5.9%, but the labour participation rate was unchanged at 61.6%, reflecting the return of only a fraction of individuals (+151k) to the labour market. The participation rate had stayed at an average of 61.5% for the past 12 months, lower than the pre-Covid level of circa 63%. We have speculated last month that multiple factors kept those who lost their jobs on the margins of labour market -such as the lack of access to affordable child care, higher unemployment benefits relative to minimum wages as well as pandemic-induced early retirements.

Firms lamented the struggle to fill vacancies and have been dishing out attractive pays and benefits to lure potential employees, allowing individuals to "shop for" jobs and to some extent, may have limited the employment take-up rates. However, the average hourly earnings growth moderated to 0.3% m/m in June (May: +0.4%), as wage growth slowly normalised to include more lower income earners. The y/y rate remained volatile at 3.6% (May: +1.9%).

Outlook:

Overall, the June NFP report matched our expectation of a sustained growth in the hospitality and retail sectors through August this year, amid a pent-up

Figure 1: Nearly 70% of jobs recouped from last year's losses

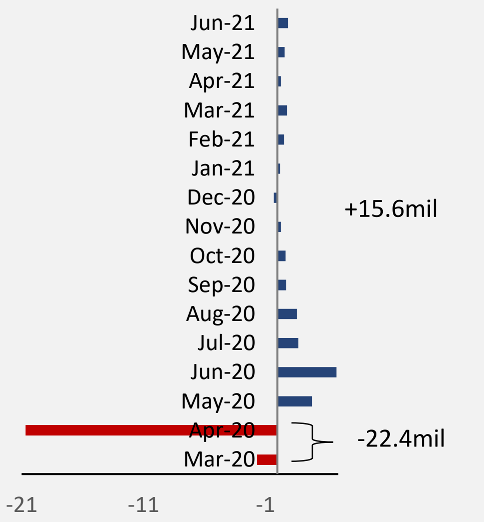
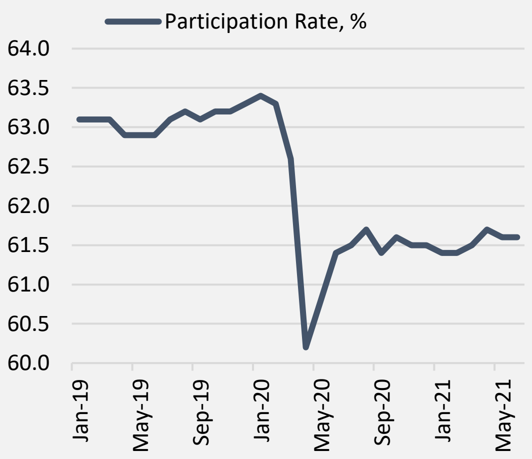


Figure 2: Participation rate still starkly lower compared to last year

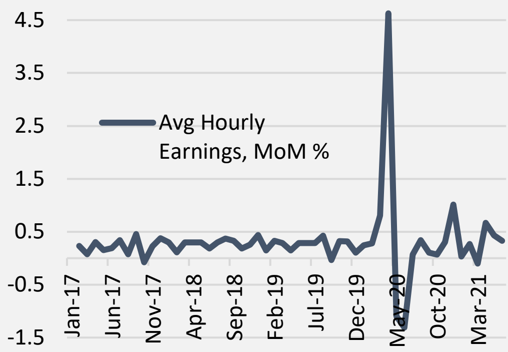


Source: Bloomberg, Bureau of Labour Statistics demand for travelling and higher spending in summer. For this to happen, the pandemic situation needs to improve or at least stay at where it is right now. The 7-day average of new Covid cases had ranged from 11-17k for the past 30 days. On a less positive note, the vaccination rate in the US is beginning to plateau relative to other developed countries; the share of population already receiving first Covid shot was 54.5% as at 3 July, compared to 50.1% a month ago and has fallen behind earlier European laggers such as Germany (55.2%) and Italy (57.3%). This is not a welcoming sign especially when the super infectious delta variants are spreading around the globe.

We suspect that the currently high labour inactivity may persist through the medium term and could exert upward pressure on wage growth and inflation. Parents, particularly former working mothers who remain on the fringes of the labour market may still be deterred to start looking for jobs, opting instead to stay at home with their children through summer. Record high equities and property prices had also boosted household wealth, making the idea of working less appealing. Amid the hiring boom and the lack of supply, firms may continue to offer higher wages to recruit and also retain existing employees, judging from the record high quit or turnover rates in April (2.7%).

This could further drive the narrative of a sooner-than-expected Fed tightening, although we think that the Fed may stick to its stance for some time to come, as plenty of slack remains in the labour market. The pent-up demand may also ease in summer, while signs of growth peaking in the manufacturing sector are emerging. No change to our view that the Fed would keep fed funds rate at 0-0.25% through 2022 and start QE tapering in 2H22, emphasizing the still-elevated unemployment, and transitory inflation in the US.

Figure 3: Wage growth normalising



Source: Bloomberg, Bureau of Labour Statistics

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