Global Markets Research

Research Alert

NFP: Not quite there yet

- **US' job growth continued to fall short of expectations**
- **Supply chain delay led to weakness in manufacturing, construction employment**
- **Fed toeing the line between modest job gains and higher inflation**

Background

The nonfarm payrolls disappointed for the second month, registering 559k gains in May, compared to the consensus forecast of +675k. The previous two months' figures were revised up by a mere 27k.

The unemployment rate fell by 3ppts to 5.8% (Apr: 6.1%). This was slightly better than estimate of 5.9%, but partly because of the smaller labour force as the labour participation rate edged down to 61.6% (Apr: 61.7%).

Hospitality sector created more jobs

Job growth concentrated in the leisure and hospitality sector (+292k), contributing about 52% of May's headline reading, as the loosened Covid restrictions and swift vaccination progress boosted travel confidence. Meanwhile, the retail sector shed jobs for the second month, as the fall in foods & beverages employment was offset by the gains in jobs at clothing/accessories stores.

The manufacturing sector recruited some 23k employees after the previous month's layoffs, mainly driven by the partial rehiring of the auto vehicles sector. Non-durable goods manufacturing added only 5k jobs as the supply chain bottlenecks and workers shortage may have constrained hiring. Construction jobs fell for the second month (-20k), reflecting losses in the none-residential specialty trade sector as contractors grappled with the issue of material shortages.

Faster recovery rate compared to post-GFC era

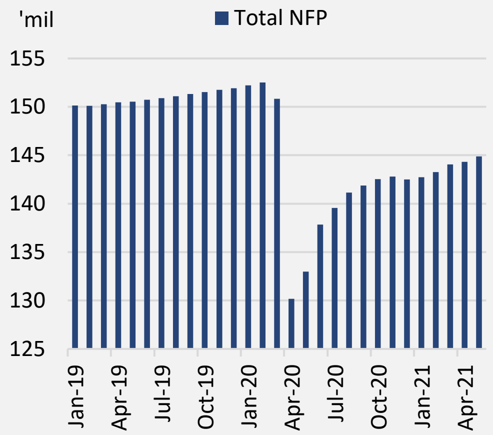
As of May, total employment remained 7.6 million lower, compared to February last year before the pandemic shocked the labour market. On the bright side, the idiosyncratic nature of this pandemic downturn has allowed jobs to recover at a significantly faster pace compared to the previous recession - the economy has recouped around 66% of jobs lost in the Mar-Apr 2020 lockdown period, compared to post-GFC, it took 30 months to recover the same number of jobs.

Demand and supply mismatch

Reflecting the ubiquitous shortage of workers, the ISM Services Employment Index lost 3.5pts in May, while the same manufacturing gauge slumped 4.2pts to just below 51. The JOLTS job openings soared to a record high of 8.1 million in March and most recently, the NFIB said that a record high 48% of small businesses reported unfilled job vacancies in May. The latest Federal Reserve's Beige Book also offered the same picture.

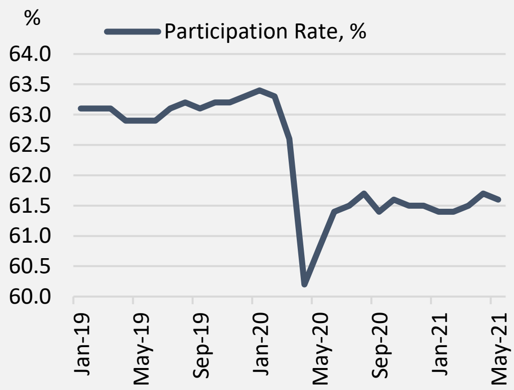
The generous unemployment benefits may have partially hindered job growth. The federal minimum hourly wage is only $7.25, although most states enacted

Figure 1: Job bounced back at rapid pace, but still well below pre-pandemic time



Source: Bloomberg

Figure 2: Participation rate is still lower, indicating smaller workforce



Source: Bloomberg

their own minimum wage rules ranging $8.75 to $15. Without tipping, a typical 40-hour work week would yield a weekly pay cheque of $290 compared to the average (max) $477 states' jobless benefits. Topping it off is the additional $300 benefits by the Federal Government, although for the exact same reason, half of the US states have since then withdrawn from said program, effective as early as 12 June.

Other reasons include candidates' lack of qualifications/skills and firms' recent adoption of a more streamlined staffing. The pandemic has shifted and reshaped our idea of working where many businesses now envision a future where more employees work from home and travel less. Some jobs in the business travel, event planning industry (for business conferences) simply may not return. This may have led many to embark on a forced career change. The lagging school reopening and America's lack of affordable child care may have prevented former working mothers to return to the workforce.

Meanwhile, the rampant supply chain delay issues may continue to impact the manufacturing and construction employment more directly. Lengthened time in acquiring inputs would constrain output and in the case of the construction sector, delay the start or completion projects.

Outlook:

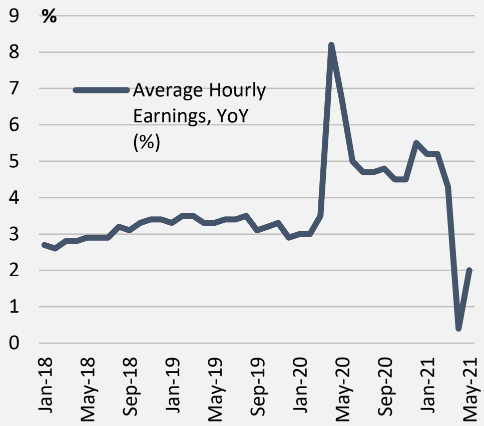
This combination of factors may continue to inhibit the super strong NFP numbers that many had anticipated. However, the recent acceleration in job growth and the rapid fall in initial jobless claims offered some optimism. The average hourly earnings, distorted since the start of the pandemic also began to show signs of normalisation amid the returns of more low-income jobs. (Large number of jobs lost last year were in the low-income segment, which were then excluded from wage growth calculation).

In the medium term, we foresee sustained hiring in the hospitality industry. The pent-up demand for travelling may drive recovery through August this year as Americans compensated for last year's missing summer vacations. Airlines and hotels bookings continued to climb; airport traffic has gone busier - the TSA screened a daily average of 1.6mil travellers in May (versus 1.4mil in Apr & 1.2mil in Mar).

The retail sector employment may continue to benefit from American's high saving rates which stood at a historically elevated level of 14.9% in April (Mar: 27.7%)., Rising consumer confidence suggest that Americans are ready to spend more on clothing, dining out and entertainments after being deprived of these experiences for the past one year.

For now, this job report also works in favour of the Fed's cautious guidance, offering it some breathing space in a market that increasingly predict a sooner tightening cycle. With surging inflation, transitory or otherwise, is already a given, we think that the Fed may continue to emphasize the high unemployment level, and the need to maintain an accommodative policy.

Figure 3: As low-income jobs return, wage growth showing early signs of normalisation



Source: Bloomberg

Figure 4: Forecasts

	Current	2Q21	3Q21	4Q21
Fed Funds Rate, %	0-0.25	0-0.25	0-0.25	0-0.25

Source: HLBB Global Markets Research

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