

## US EMPLOYMENT UPDATE – JUNE 2022

### FED LIKELY TO PUSH THROUGH A FURTHER MAJOR RATE HIKE

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#### SUMMARY

- > The solid June US employment report contrasted with most other recent US economic data (and in particular weak business and consumer surveys).
- > Non-farm payrolls grew a solid 372,000 in June, only slightly below 384,000 in May. The unemployment rate was unchanged at 3.6%.
- > The solid headline figure means that the Fed will brush off recessionary noise and remain focused on its main worry that high inflation expectations become entrenched. It is therefore more likely to deliver a 75bps rate rise at its 27 July meeting than a 50bps one.
- > We continue to think the Fed will moderate the pace of rate increases after summer, settling on hikes of +25bps (instead of +75bps) from September until December, when we expect the Fed rate to peak at 3.25%.
- > This is because we think that US economic data could continue to erode and extend to employment figures, causing the Fed to alter its single-minded focus on inflation. Our macroeconomic scenario remains that the US will experience a mild economic recession in early 2023.
- > However, we do recognise that the Fed could decide to front-load rate hikes (going for +50bps in September instead of +25bp, for example) but then end its rate-hiking cycle earlier.
- > Nevertheless, the outlook for rate hikes also depends on commodity prices (particularly oil prices), which seem, in recent weeks, to be central to the Fed's reaction function. This contrasts with the long-standing Fed tradition of ignoring commodity volatility, seen as outside monetary policymakers' control.

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## US EMPLOYMENT UPDATE

FED LIKELY TO PUSH THROUGH A FURTHER MAJOR RATE HIKE

### A solid employment report, but some weak spots

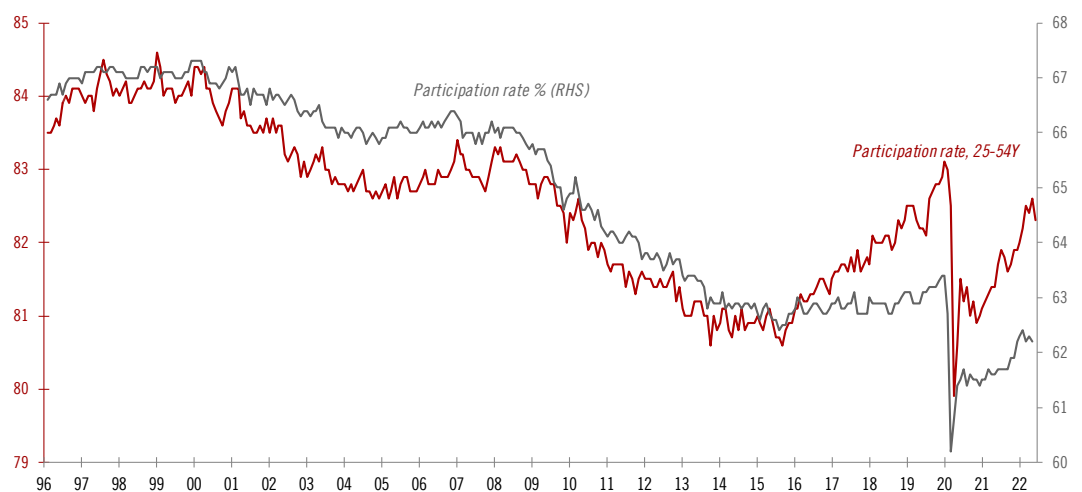
June employment figures were solid, but not uniformly so. First of all, the household survey (from which the unemployment rate is derived) painted a very different picture from the nonfarm payroll (NFP) survey, showing the US economy destroyed 315,000 jobs last month.

Surprisingly, the total labour-force participation rate edged down to 62.2% from 62.3% in May. Where the **workers have gone remains a mystery**, especially now that covid-related fiscal-policy support has faded and there are multiple signs that low-income workers are running out of savings.

The June nonfarm payrolls report provided mixed signals about the likelihood and timing of a recession. The stagnation of the unemployment rate at low levels often foreshadows recession, and the unemployment rate has now been stuck at 3.6% for four months in a row. This is a clear negative. **This said, all modern US recessions have been preceded by a marked slowdown in the nonfarm payrolls figure—and the June figures suggest that we may not be there yet.**

From an inflation standpoint, **relatively tame wage growth of only 0.3% month-on-month in June** (compared with 0.4% in May and 0.3% in April) was welcome news, as was the moderation in the year-on-year increase to 5.1% from 5.3% in May. **It is hard to see a wage-price spiral at work here**, so we remain confident that US inflation will stabilise over the summer before dropping sharply by year's end. This said, the Fed may worry that consumers, disoriented by recent price rises, question the Fed's credibility on the issue. **The Fed has lately put more emphasis on consumer surveys of future inflation – which tend themselves to be very much linked to energy and gasoline prices – rather than the actual mechanisms of inflation formation such as wage growth.**

CHART 1: THE PARTICIPATION RATE DIPS AS SOME WORKERS REMAIN RELUCTANT TO RETURN TO WORK



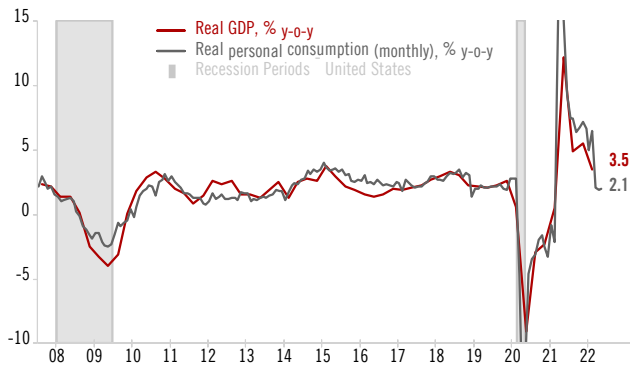
Shaded area: recession. Source: PWM - AA&MR, Bloomberg Finance LP (as of 8 July 2022)

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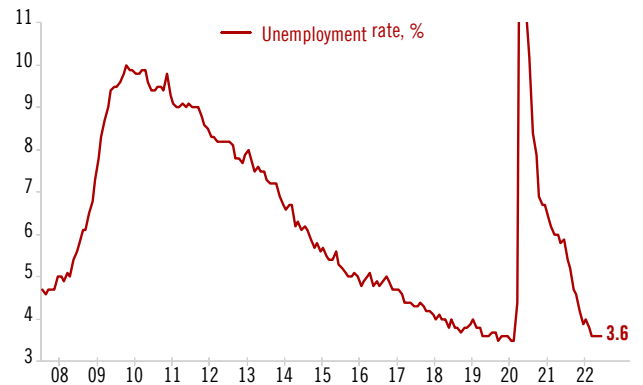
FED LIKELY TO PUSH THROUGH A FURTHER MAJOR RATE HIKE

REAL GDP AND PRIVATE CONSUMPTION GROWTH, % Y-O-Y



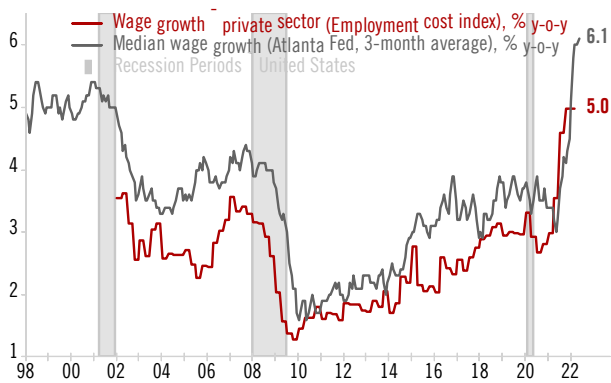
Source: Pictet WM – AA&MR, Factset

UNEMPLOYMENT RATE, %



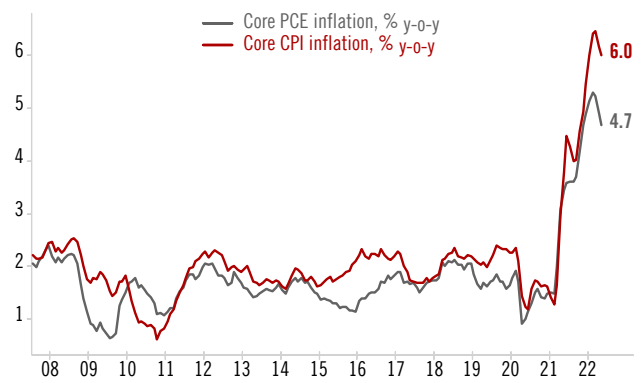
Source: Pictet WM – AA&MR, Factset

WAGE GROWTH INDICATORS, % Y-O-Y



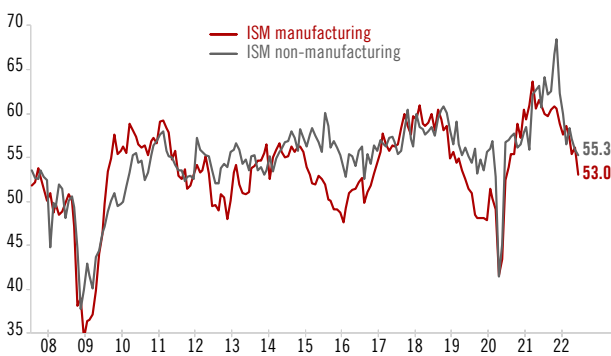
Source: Pictet WM – AA&MR, Factset

CORE INFLATION (PCE AND CPI INDICES), % Y-O-Y



Source: Pictet WM – AA&MR, Factset

ISM BUSINESS SURVEYS



Source: Pictet WM – AA&MR, Factset

HIGH-YIELD CORPORATE BOND SPREAD, BASIS POINTS



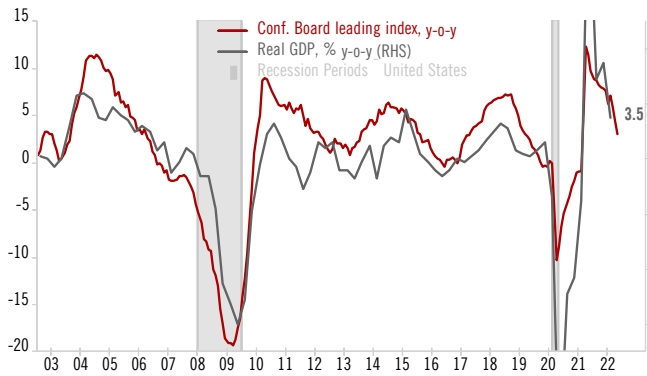
Source: Pictet WM – AA&MR, Factset (last close)

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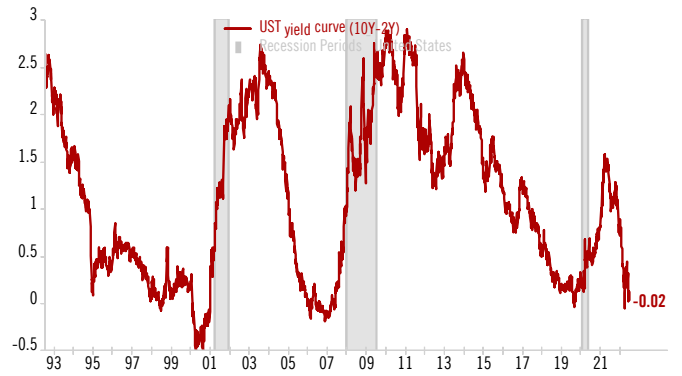
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CONF. BOARD LEADING INDEX, % Y-O-Y VS GDP GROWTH, % Y-O-Y



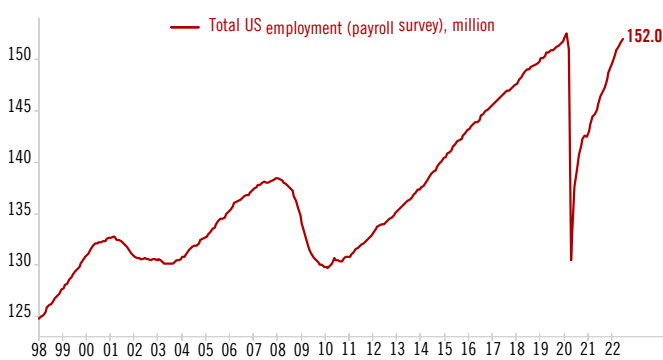
Source: PWM - AA&MR, Factset

US YIELD CURVE SPREAD (10-YEAR YIELD MINUS 2-YEAR YIELD)



Source: PWM - AA&MR, Factset (last close)

TOTAL US EMPLOYMENT



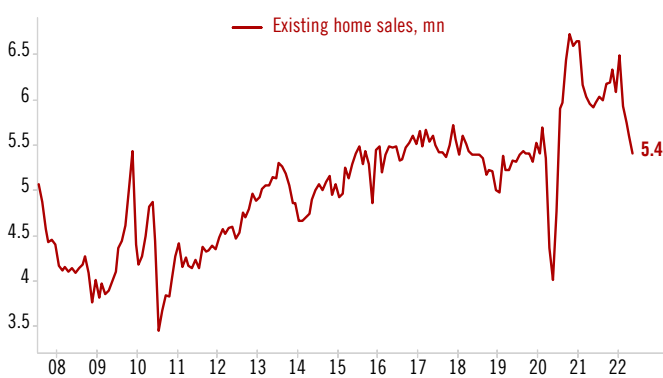
Source: PWM - AA&MR, Factset

US INVESTMENT (EQUIPMENT) VS EMPLOYMENT GROWTH, % Y-O-Y



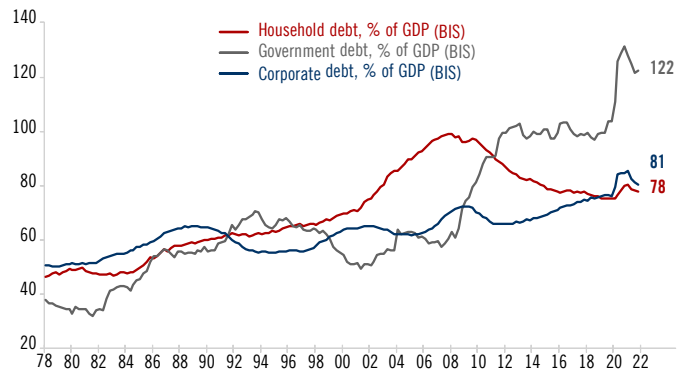
Source: PWM - AA&MR, Factset

EXISTING HOME SALES, MILLION UNITS (ANNUALISED)



Source: PWM - AA&MR, Factset

DEBT RATIOS (HOUSEHOLD, CORPORATE, GOVERNMENT), % OF GDP



Source: PWM - AA&MR, Factset

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