

## September US labour report: A weak showing

- **For the second month in a row, payrolls disappointed expectation in September. However, sharp upward revisions were made to the July-August readings**
- **The disappointing reading in September can be attributed to: (a) sharp fall in public sector hiring and (b) slower than expected pace of hiring in high contact service sectors**
- **We maintain that payrolls could rebound in subsequent months. The continued acceleration in wages implies that the demand for labour remains strong**
- **The unemployment rate moved lower that was encouraging but part of that can be attributed to a fall in the participation rate**
- **We maintain that the FOMC will commence tapering in 2021 but assign a higher probability of that happening in December than November**
- **In the near-term, we expect US yields to continue to drift higher while the USD might trade flat against developed market (DM) FX but continue to rally against emerging market (EM) FX**

### Labour market:

For the second consecutive month, the US labour market report disappointed expectations. Non-farm payrolls printed in at 194K (expectations: 500K) in September. However, upward revisions were made to the previous two months (July-August) by 169K. From the September print, we can make two key inferences:

- Most of the weakness came from the government sector that shed jobs to the tune of 123K in September reflecting: (a) uncertainty about the debt ceiling and (b) sharp fall in state and local public sector education employment as hiring has not gone back to the pre-pandemic levels. Some improvement could be in store if there is a permanent resolution to the debt ceiling problem by 3-December-2021.
- Hiring in high-contact service sectors such as leisure & hospitality has still not shown signs of recovering recording a 74K increase in September but that still remains much lower than the 260K average recorded over 2021. The delta variant could have played a role in keeping hiring low but that could gradually ease going forward.

In short, temporary factors continue to weigh on hiring that should with a lag reverse. We continue to take note of the strong traction that is being witnessed in several coincident indicators of payrolls such as the ADP survey, the employment sub-component of the ISM survey and job openings & labour turnover survey. Besides, hiring in the goods producing sectors showed a sequential improvement and hiring in the majority of the other service sectors (excluding high contact) remained fairly robust. However, cumulative job losses since the pandemic broke out is at ~5 mn with high contact service sectors such as leisure and hospitality having a cumulative loss of ~1.6 mn.

While the unemployment rate drifted sharply lower from 5.2% in August to 4.8% in September, a growing concern will remain about the fall in participation rate from 61.7% in August to 61.6% in September. In short, the size of the labour force continues to remain much lower than the pre-pandemic levels given that in January-2020 the participation rate was 63.4%. There were ~183K people that left the labour force in September-2021. The Federal Reserve Open Market Committee (FOMC) Chairman expressed concerns about the low level of participation rates since the pandemic broke out.

A key reason why we still believe that hiring will pick-up is the continued rise that is being seen in average hourly earnings that increased by 0.6% MoM in September over a downwardly revised 0.4% MoM increase in August. The rise in wages will also imply that there is more upside pressure to core inflation.

Shivom Chakravarti  
[shivom.chakravarti@icicibank.com](mailto:shivom.chakravarti@icicibank.com)  
Tel no: +91-22-4008-6273

October 8, 2021

Please see important disclaimer at the end of this report

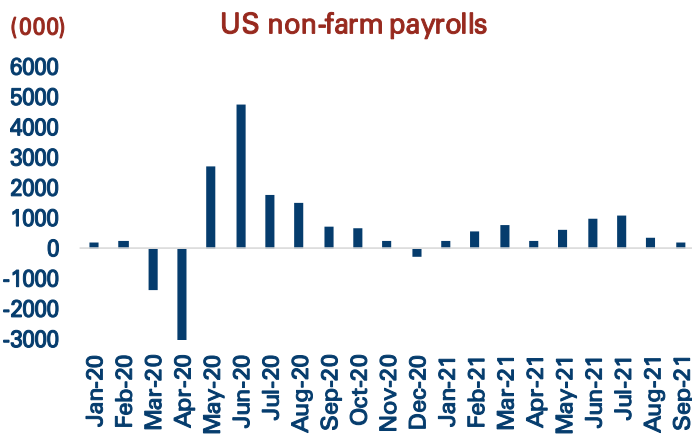
From a US monetary policy perspective, we still expect the FOMC to move forward with its tapering plans that could commence in December. We think that the disappointing payrolls release is likely to lower the odds of a formal tapering announcement in November. Besides, the ongoing uncertainty about whether the debt ceiling will be raised prior to the <Dec 03, 21> deadline will also imply that the FOMC will want to remain cautious, until this event risk is out of the way.

### Market Response

For the markets, a weaker reading resulted in both the DXY and US yields falling simultaneously in a knee-jerk reaction to the release. However, US yields have corrected back to the pre-payrolls levels as investors respond to the continued rise in commodity prices and as tapering expectations remain firmly in place. We maintain our near-term upside of 1.6% for the UST 10 year.

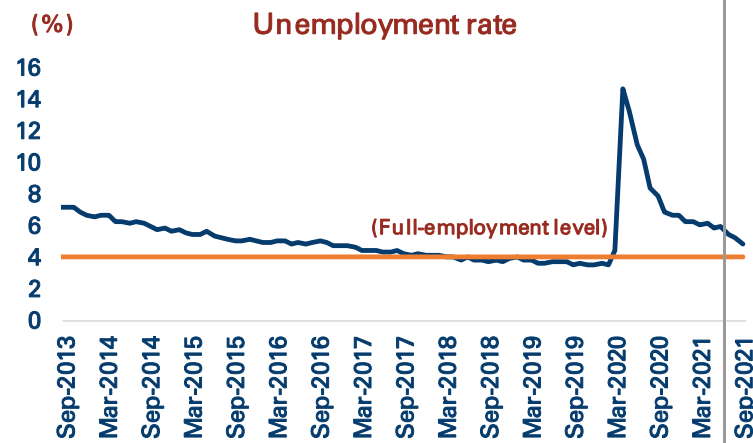
We think that most of the USD strength could continue to come against EM FX such as the INR, IDR and CNY as investors price in a tighter US monetary regime going forward. However, we see a fairly flat trajectory in the DXY in the near-term and see it trading in the 92.50-94.50 range as G-4 yields appear to be rising simultaneously. In the medium-term, we maintain our bullish bias on the USD against both DM and EM currencies respectively.

**Chart 1: Payrolls momentum have softened sharply over the last two weeks**



Source: Bloomberg & ICICI Bank Research

**Chart 2: Unemployment rate has moved sharply lower**



Source: Bloomberg & ICICI Bank Research

**Chart 3: Payrolls fell sharply in August**

(In 000)	Non-farm payrolls: Break-down												
	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Total Non-farm payrolls	711	654	264	-306	233	536	785	269	614	962	1091	366	194
I.) Private sector payrolls:	930	925	359	-274	122	622	724	226	555	808	816	332	317
(a) Goods producing	97	117	68	82	-7	-20	159	-41	16	42	74	37	52
--Mining & Logging	2	2	3	0	-1	2	15	3	4	12	5	6	4
--Construction	35	72	24	47	12	-57	93	-9	-24	-2	12	0	22
--Manufacturing	60	43	41	35	-18	35	51	-35	36	32	57	31	26
(b) Private services providing	833	808	291	-356	129	642	565	267	539	766	742	295	265
--Wholesale trade	33	9	15	15	14	8	19	7	15	27	15	-3	17
--Retail trade	15	100	-2	30	19	14	42	-22	60	89	-6	-4	56
--Transportation & Warehousing	44	66	124	-43	6	36	43	-55	15	24	56	55	47
--Utilities	1	-1	-1	-1	1	0	1	0	-1	-1	0	-1	-1
--Information	53	-16	0	9	13	6	5	11	20	12	19	29	32
--Financial activities	37	30	10	18	7	-7	13	17	2	0	31	11	2
--Professional & Business Services	127	245	95	159	90	93	74	-79	50	70	91	85	60
--Education & Health services	60	65	43	-29	-14	57	104	23	46	72	84	51	-7
--Leisure & Hospitality	413	265	10	-498	-17	413	227	328	319	397	408	38	74
-- Other Services	49	46	-3	-16	11	22	37	13	76	44	34	34	-16
II.) Government sector	-219	-271	-95	-32	111	-86	61	43	59	154	275	34	-123

Note: Non-farm payrolls = Private + Government sector  
 Private = Goods producing + Private Services providing  
 Goods producing = Mining & logging + Construction + Manufacturing  
 Private services providing = Wholesale trade+ retail trade+ transportation & Warehousing + Utilities + information + Financial Activities + Professional & Business Services + Education & Health Services + Leisure & Hospitality + Other Services

Source: US Bureau of Labour & ICICI Bank Research

<b>Economics Research Group</b>			
<b>Economics Research</b>			
Sameer Narang	Head of Economics Research	(+91-22) 4008-1414 (ext. 6273)	sameer.narang@icicibank.com
Shivom Chakravarti	Senior Economist—Global Markets	(+91-22) 4008-1414 (ext. 6273)	shivom.chakravarti@icicibank.com
Dr.Sudarshan Bhattacharjee	Senior Economist—India Markets	(+91-22) 4008-1414 (ext. 6708)	sudarshan.bhattacharjee@icicibank.com
Debomitra Sen	Research Analyst	(+91-22) 4008-1414 (ext. 8161)	debomitra.sen@icicibank.com
Aniket Gaikwad	Research Analyst	(+91-22) 2653-1414 (ext. 8161)	aniket.gaikwad@icicibank.com
Kaushal Aryan	Research Analyst	(+91-22) 2653-1414 (ext. 7249)	kaushalkumar.aryan@icicibank.com
Asha Sasikumar	Research Analyst	(+91-22) 2653-1414 (ext. 7249)	asha.sasikumar@icicibank.com
Sarbartho Mukherjee	Research Analyst	(+91-22) 2653-1414 (ext. 7249)	sarbartho.mukherjee@icicibank.com
Jyoti Sharma	Research Analyst	(+91-22) 2653-1414 (ext. 7249)	sharma.jyoti@icicibank.com
Tanisha Ladha	Research Analyst	(+91-22) 2653-1414 (ext. 7309)	tanisha.ladha@icicibank.com
Nihal Kumar	Research Analyst	(+91-22) 2653-1414 (ext. 7309)	nihal.kumar@icicibank.com
Aditya Sharma	Research Analyst	(+91-22) 2653-1414 (ext. 7309)	sharma.adi@icicibank.com

<b>Treasury Desks</b>			
Treasury Sales	(+91-22) 6188-5000	Currency Desk	(+91-22) 2652-3228-33
Gsec Desk	(+91-22) 2653-1001-05	FX Derivatives	(+91-22) 2653-8941/43
Interest Rate Derivatives	(+91-22) 2653-1011-15	Commodities Desk	(+91-22) 2653-1037-42
Corporate Bonds	(+91-22) 2653-7242		

### **Disclaimer**

*This document is issued solely by ICICI Bank Limited ("ICICI Bank"). Any information in this email should not be construed as an offer, invitation, solicitation, solution or advice of any kind to buy or sell any securities, financial products or services offered by ICICI Bank) or any other entity, unless specifically stated so. The contents of this document do not take into account your personal circumstances. Before entering into any transaction, you should take steps to ensure that you understand the transaction and have made an independent assessment of the appropriateness of the transaction in light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction and should seek your own financial, business, legal, tax and other advice regarding the appropriateness of investing in any securities. ICICI Bank (including its branches, affiliates of ICICI Bank) do not provide any financial advice, and is not your fiduciary or agent, in relation to the securities or any proposed transaction with you unless otherwise expressly agreed by us in writing.*

*The information, opinions and material in this document (i) are derived from sources that ICICI Bank believes to be reliable but the reliability or accuracy of which have not been independently verified (ii) are given as part of ICICI Bank's internal research activity and not as manager of or adviser in relation to any assets or investments and no consideration has been given to the particular needs of any recipient; and (iii) may contain forward looking statements, which may be materially affected by various risk, uncertainties and other factors. The opinions contained in such material constitute the judgment of ICICI Bank in relation to the matters which are the subject of such material as at the date of its publication, all of which are expressed without any responsibility on ICICI Bank's part and are subject to change without notice. ICICI Bank has no duty to update this document, the opinions, factual or analytical data contained herein. ICICI Bank and/or its affiliates makes no representation as to the accuracy, completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. The recipient of the information should take necessary steps as they deem necessary prior to placing reliance upon it. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/purchase or as an invitation or solicitation to do so for any securities or financial products/ instruments of any entity.*

*This document is intended solely for customers of ICICI Bank and may contain proprietary, confidential or legally privileged information. No part of this report may be copied, disseminated or redistributed by any recipient for any purpose without ICICI Bank's prior written consent. If the reader of this message is not the intended recipient and has received this transmission in error, please immediately notify ICICI Bank, Economic Research Group, E-mail: [erg@icicibank.com](mailto:erg@icicibank.com) or by telephone at +91-22-2653-7233 and delete this message from your system.*

*Please also note that ICICI Bank (including its branches, and affiliates) is unable to exercise control or ensure or guarantee the integrity of/over the contents of the information contained in e-mail transmissions and / or attachments and that any views expressed in this e-mail and / or attachments are not endorsed by/binding on ICICI Bank. Before opening any attachments please check them for viruses and defects and please note that ICICI Bank accepts no liability or responsibility for any damage caused by any virus that may be transmitted by this email and/ or attachments thereto.*

**DISCLAIMER FOR DUBAI INTERNATIONAL FINANCIAL CENTRE ("DIFC") CLIENTS:**

*This marketing material is distributed by ICICI Bank Limited., Dubai International Financial Centre (DIFC) Branch, a category 1 Authorized Firm and regulated by the Dubai Financial Services Authority. This marketing material is intended to be issued, distributed and/or offered to a limited number of investors who qualify as 'Professional Clients' pursuant to Rule 2.3.3 of the DFSA Conduct of Business Rulebook, or where applicable a Market Counterparty only, and should not be referred to or relied upon by Retail Clients and must not be relied upon by any person other than the original recipients and/or reproduced or used for any other purpose.*

**DISCLOSURE FOR RESIDENTS IN THE UNITED ARAB EMIRATES ("UAE"):**

*Investors should note that any products mentioned in this document, any offering material related thereto and any interests therein have not been approved or licensed by the UAE Central Bank or by any other relevant licensing authority in the UAE, and they do not constitute a public offer of products in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.*

**DISCLOSURE FOR RESIDENTS IN HONGKONG**

*This document has been issued by ICICI Bank Limited in the conduct of its Hong Kong regulated business (i.e. type 1 license) for the information of its institutional and professional investor (as defined by Securities and Future Ordinance (Chapter 571 of Laws of Hong Kong) (the "SFO")) customers; it is not intended for and should not be distributed to retail or individual investors in Hong Kong. Any person who is not a relevant person should not act or rely on this document or any of its contents. This document has not been reviewed, authorized or approved by any regulatory authority.*

*ICICI Bank and/or its affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. As a result, you should be aware that a conflict of interest may exist. In accordance with the regulatory requirements and its own conflicts of interest policies, ICICI Bank has in place arrangements, internal policies and procedures to manage conflicts of interest that arise between itself and its clients and between its different clients. Where it does not consider that the arrangements under its conflicts of interest policies are sufficient to manage a particular conflict, it will inform you of the nature of the conflict so that you can decide how to proceed.*

**DISCLOSURE FOR RESIDENTS IN SINGAPORE**

*ICICI Bank Limited, India ("ICICI India") is incorporated under the laws of India and is regulated by the Reserve Bank of India. ICICI Bank Limited, Singapore branch ("ICICI") is regulated by the Monetary Authority of Singapore.*

*As mentioned, ICICI India is regulated by the Reserve Bank of India. Hence, in relation to your dealing with ICICI India, you understand that your interest will be subject to protection of local laws and regulations in India, which may offer different or diminished protection than available under Singapore laws and regulations. You also understand that the Monetary Authority of Singapore will be unable to compel the enforcement of the rules of the local regulators.*

*For more detailed disclaimer, please visit <https://www.icicibank.com/disclaimer/disclaimertnc.html>*