

US Labour Market Monitor

The Fed welcomes early signs of easing labour markets

While the March Jobs Report continued to illustrate strong headline employment growth, it also brought some welcome news for the Fed. Make no mistake, US labour markets still remain historically tight, with 1.7 unfilled vacancies per unemployed (compared to around 1.2 pre-pandemic). Consumer surveys show that workers' confidence in finding new jobs remains very high. That said, most leading indicators suggest that labour demand is now cooling, and the elevated nonfarm payrolls growth was supported by recovering labour supply.

Headline developments mask large sectoral differences. Employment in sectors hit the hardest by pandemic-driven labour shortages, such as leisure & hospitality, still remains below pre-covid levels. At the same time, sectors such as manufacturing, construction and retail trade recorded *job cuts* in March.

NFIB's small business survey paints a similar picture, as **companies continue to report high number of job openings even though their hiring plans have already plunged below pre-covid levels.** ISM employment indices also moved lower in March, and while they have not been the best leading indicator lately, the momentum seems to be for weaker employment growth from here.

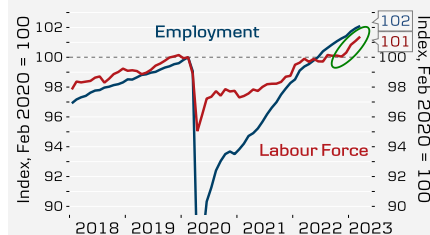
Continuing jobless claims and JOLT's involuntary layoffs have also started to edge higher, although both still remain at low levels in historical context. But as labour force participation has risen steadily since last November after stagnating through most of 2022, recovering labour supply can still drive healthy NFP growth over the next 1-3 months. But importantly, **supply-driven employment growth is not inflationary like demand-driven is, but rather the opposite.**

It is difficult to see what exactly is driving workers back into labour force, but we suspect it could be related to majority of the households' excess savings now being depleted, while real disposable incomes are still subdued, as we discussed in the *Nordic Outlook - Uncharted territory*, 4 April. In any case, further recovery in participation rate would make Fed's job of rebalancing the labour market easier down the line.

For now, wage inflation pressures remain too high. Average hourly earnings growth ticked higher to 0.3% m/m in March, while JOLT's Job openings are still consistent with employment costs rising by around 4% annually. While core inflation eased in March with even the Fed's closely followed services ex. shelter CPI moderating, underlying price pressures still remain too elevated for comfort.

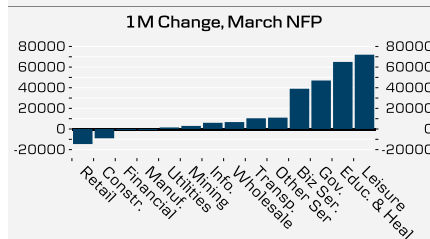
We continue to forecast a modest recession for the H2 2023, which will push monthly NFP growth clearly below 100k, and eventually lift unemployment rate to around 4.2% in 2024. This would be only modestly above Fed's median longer-term unemployment estimate (4.0%), and is consistent with the output gap turning slightly negative. Despite the latest encouraging developments, some further slack in the labour market will be needed to ensure that wage inflation cools down to levels consistent with Fed's price stability mandate.

Recovering supply eases labour shortages



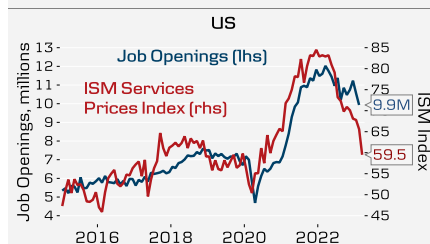
Sources: Macrobond Financial, U. S. Bureau of Labor Statistics (BLS)

Job gains reflect easing labour shortages in services sectors



Sources: Macrobond Financial, U. S. Bureau of Labor Statistics (BLS)

Cooling labour demand eases inflation pressure as well



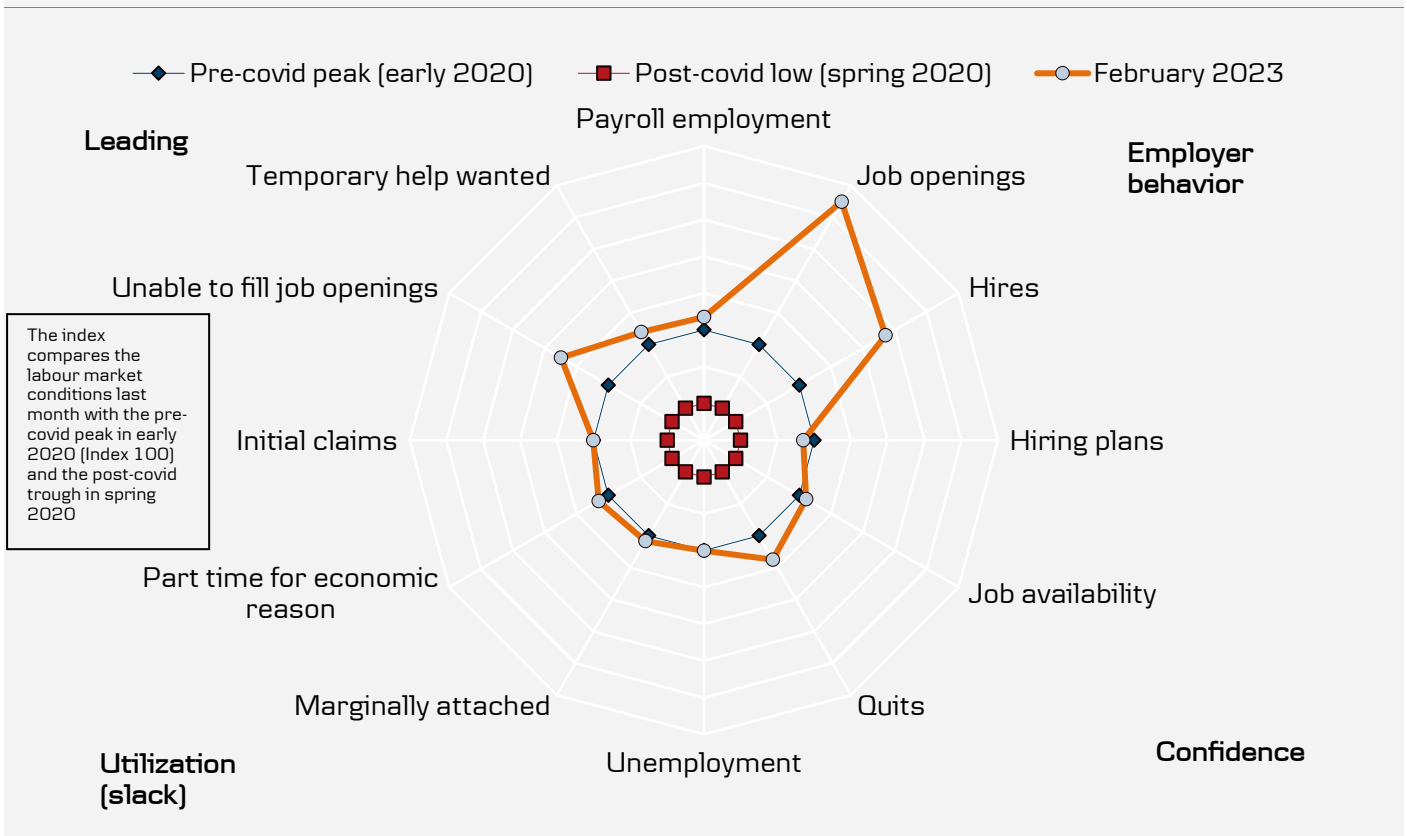
Sources: Macrobond Financial, U. S. Bureau of Labor Statistics (BLS), ISM

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US labour market in one chart

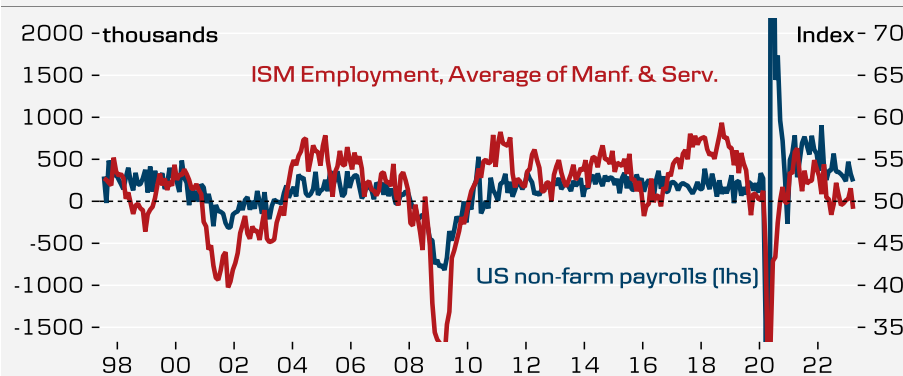
Labour market conditions have cooled since our last update, but especially job openings suggest that overall conditions still remain tight – outward moves indicate stronger labour market



Note: the diagram shows the level of tightness of different US labour market key figures at different times, compared with the level of the same figures in the pre-covid peak in early 2020 (index= 100) and post-covid trough in spring (index = 0). Counter-cyclical figures (jobless claims, marginally attached and working 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. For JOLTS data we have used the average of the past two observations as the newest figures
 Source: BLS (JOLTS), Atlanta Fed, Macrobond Financial

ISM employment vs nonfarm

ISM employment indices have edged lower, with the average now below the neutral level of 50



Source: Macrobond Financial, ISM, BLS

Labour demand

Job openings rolling over, yet still above pre-covid trend



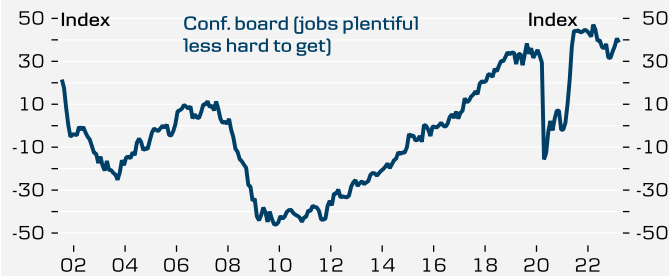
Source: Macrobond Financial, US Department of Labor, BLS

Labour demand appears to cool



Source: Macrobond Financial, NFIB

Americans still confident in their job prospects



Source: Macrobond Financial, US Department of Labor, BLS

Fed will welcome signs of labour shortages easing



Source: Macrobond Financial, NFIB

Difficulties in finding workers appear to ease, although the starting point was a historically tight labour market



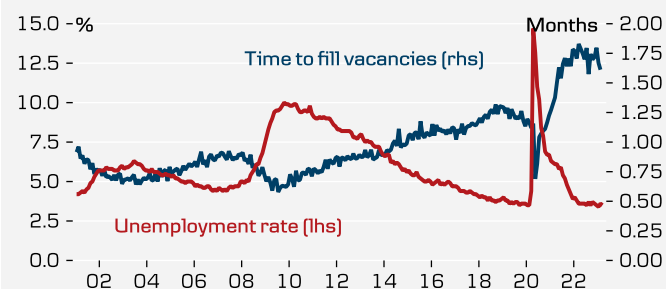
Source: Macrobond Financial, NFIB

Among sectors, Leisure and hospitality remains the hardest hit by the labour shortages



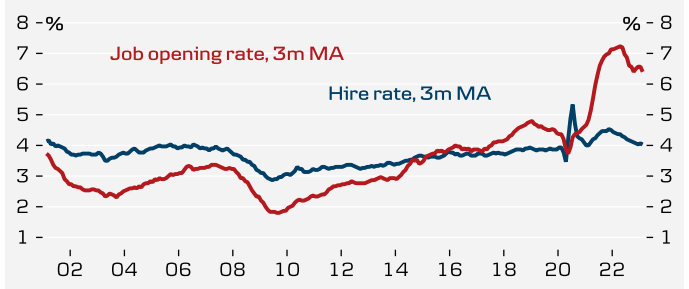
Sources: BLS, Macrobond Financial

Unemployment fell back to pre-covid low of 3.5% in March



Source: Macrobond Financial, BLS

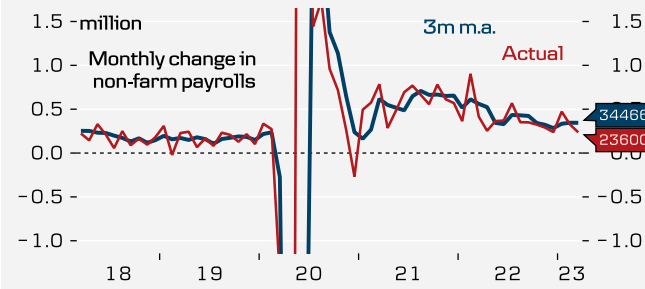
Some cooling in both job openings and hires



Source: Macrobond Financial, BLS

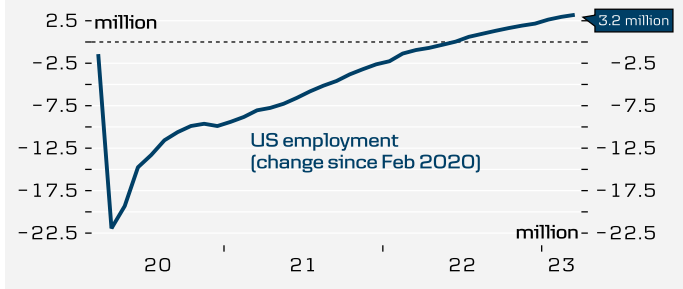
Employment measures

Employment growth easing, but still at healthy levels



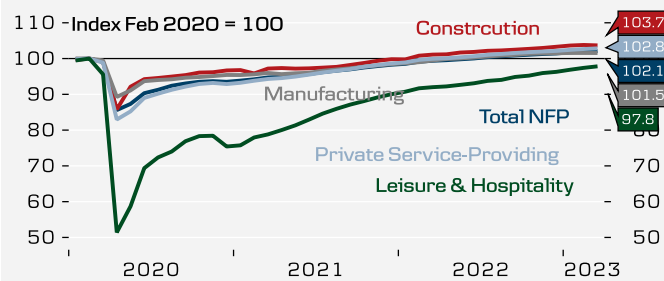
Source: Macrobond Financial, BLS

Employment above pre-covid level, but still below trend



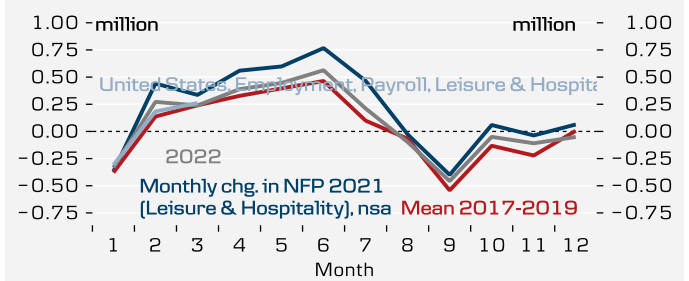
Source: Macrobond Financial, ADP

All sectors apart from "Leisure & Hospitality" have reached the February 2020 level in employment



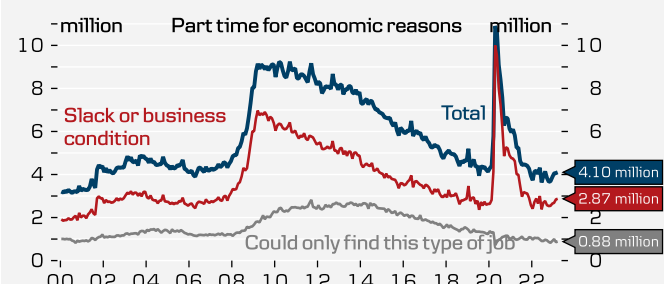
Source: Macrobond Financial, BLS

Labour shortages continue to limit the recovery in leisure & hospitality employment



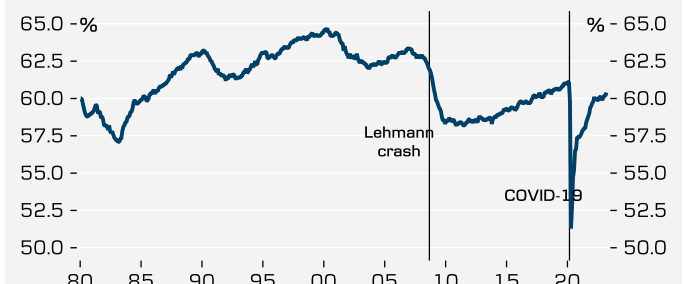
Source: Macrobond Financial, BLS

Fewer people working part-time for economic reasons is little different from its February 2020 level



Source: Macrobond Financial, BLS

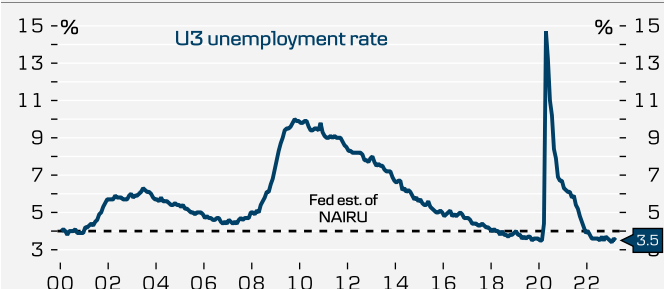
Employment to population ratio still below previous levels



Source: Macrobond Financial, BLS

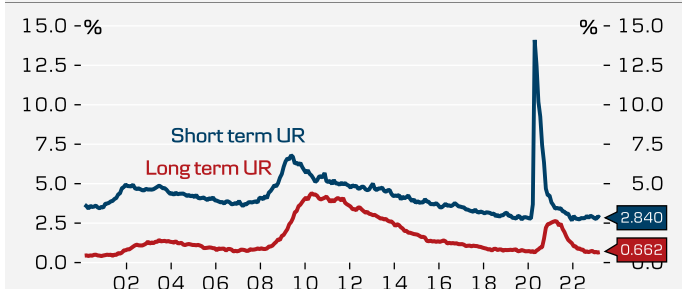
Unemployment measures

Unemployment rate is well below Fed's NAIUR estimate



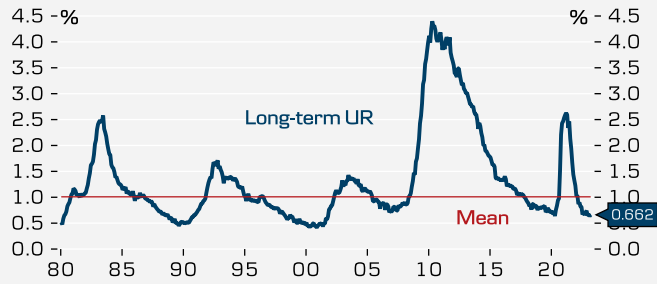
Source: Macrobond Financial, FOMC, BLS

Long-term unemployment is little changed



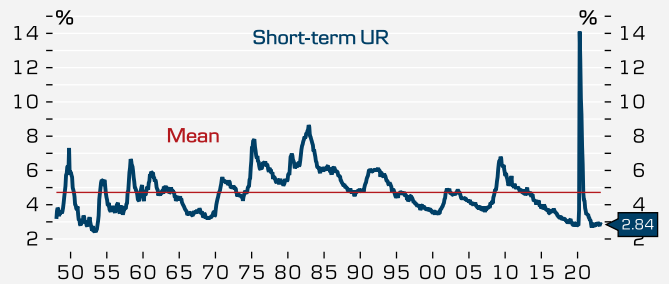
Source: Macrobond Financial, BLS

Long-term unemployment rate below the historical average



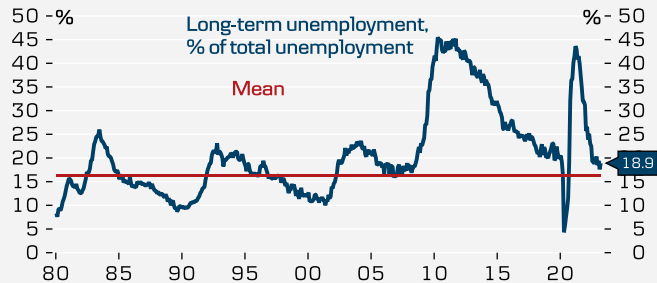
Source: Macrobond Financial, BLS

Short-term unemployment rate is around the lowest level since 1953



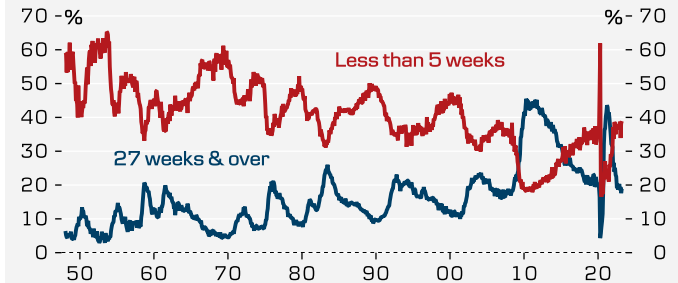
Source: Macrobond Financial, BLS

Long-term unemployment in % of total unemployment is falling



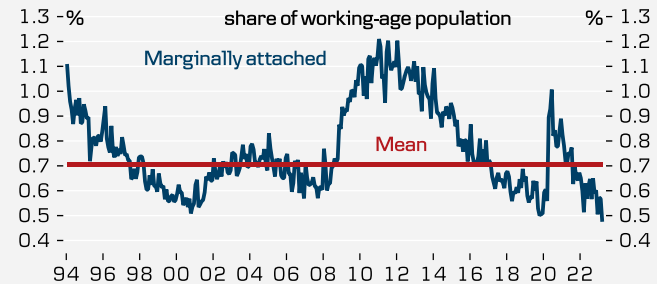
Source: Macrobond Financial, BLS

Unemployment - duration



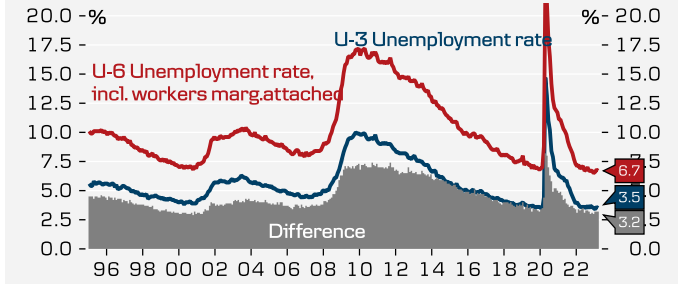
Source: Macrobond Financial, BLS

Marginally attached workers below average



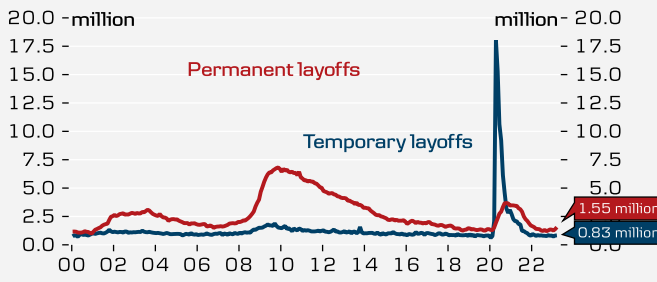
Source: Macrobond Financial, BLS

U6 unemployment is now below pre-COVID levels



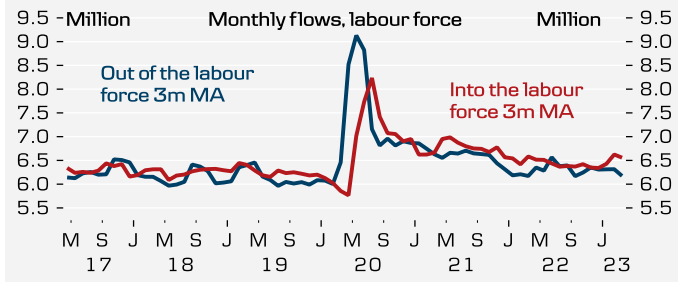
Source: Macrobond Financial, BLS

Permanent layoffs remain low



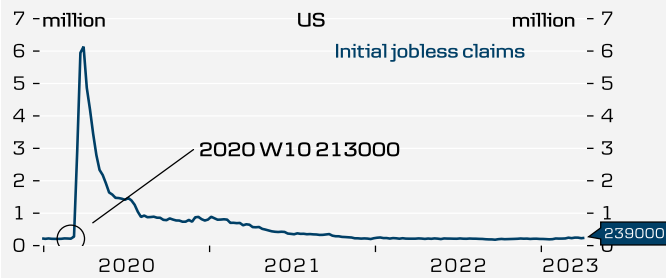
Source: Macrobond Financial, BLS

Labour market flows



Source: Macrobond Financial, BLS

Only very modest rise in initial jobless claims



Source: Macrobond Financial, Department of Labor

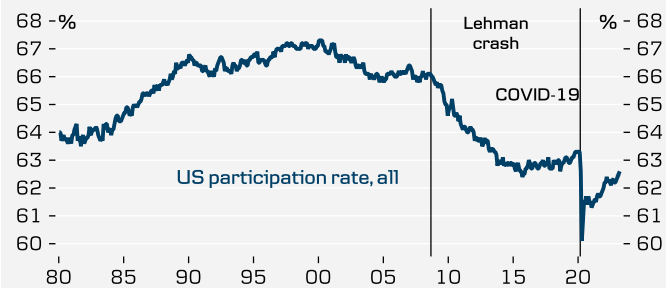
Total continuing claims have increased, but remain low in historical perspective



Source: Macrobond Financial, Department of Labor

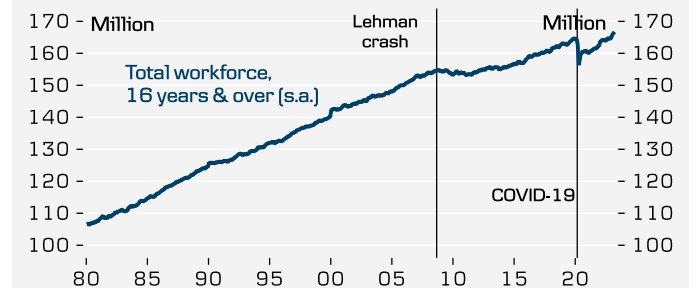
Participation

Participation rate declined again in September



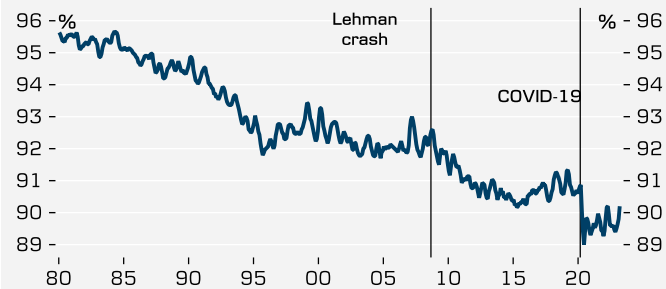
Source: Macrobond Financial, BLS

Labour force persistently below pre-covid path



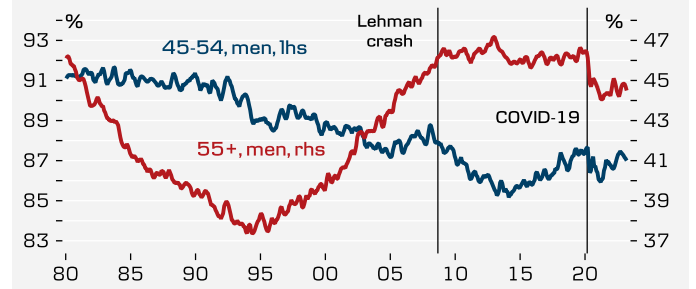
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

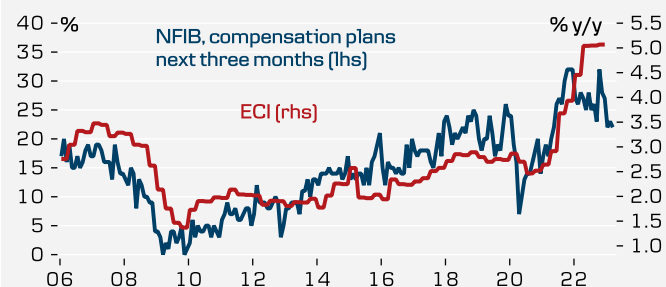
Early retirements have likely contributed to labour shortages



Source: Macrobond Financial, BLS

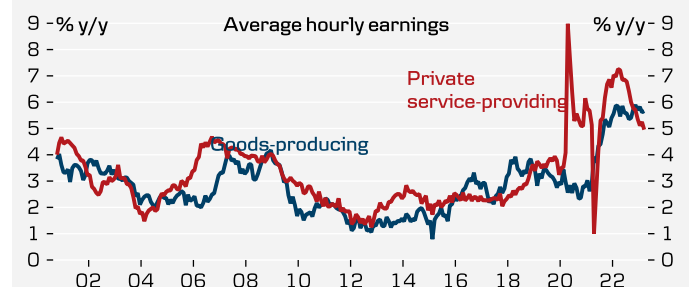
Wage growth and inflation

Employment costs continue to rise too fast for the Fed



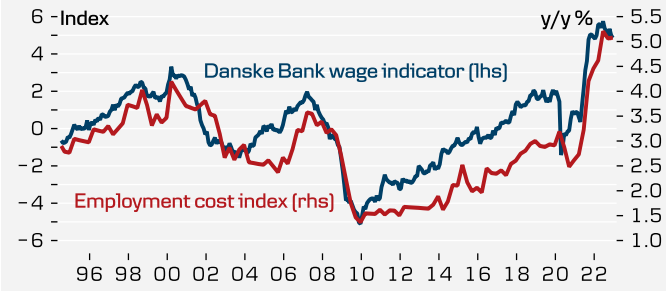
Source: Macrobond Financial, NFIB

Some signs of easing labour shortages in service-sector



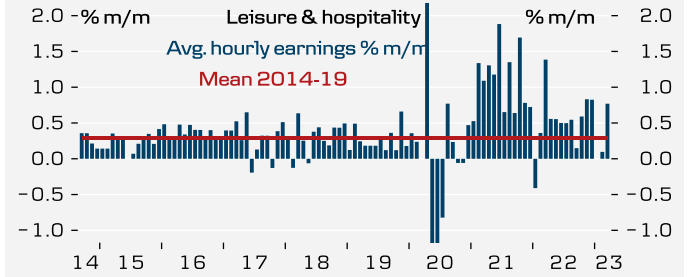
Source: Macrobond Financial, BLS

Rising wage pressure



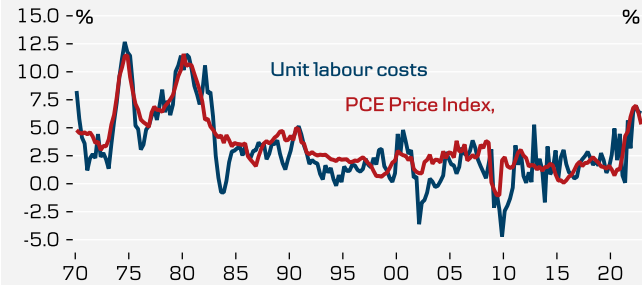
Source: BLS, Danske Bank Markets

Wage growth within "Leisure & Hospitality"



Source: BLS, Conference Board

The rise in unit labor costs continue to increase the pressure to keep hiking prices



Source: Macrobond Financial, BLS, Census, BEA

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Report completed: 14 April 2023, 12:45 CET

Report first disseminated: 14 April 2023, 12:50 CET