

# US Labour Market Monitor

## Gradual signs of cooling

**October labour market data generally affirmed the sense of cooling labour markets.** The Jobs report surprised to the downside as nonfarm payrolls came in at 150k relative to consensus of 180k. Service sectors, such as government, healthcare and social assistance, primarily attributed for job gains. Manufacturing recorded job losses, although they could be partly explained by the UAW's strike. **The cooling picture was further underscored by August and September releases being revised down, corresponding to a combined downward revision of 101k.**

**JOLTs Job Openings were little changed at 9.6m in September, with unfilled vacancies per unemployed hovering around 1.50, markedly above the pre-pandemic range of 1.2.** Layoffs painted a similar picture, edging down to 1.52m (the lowest level since December 2022), suggesting that **labour markets remain tight.** But even so, the unemployment rate continued to tick slightly higher to 3.9%, as the household survey recorded a 348k decline in the number of employed workers.

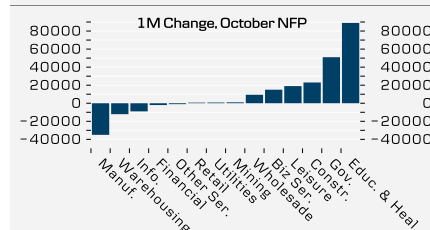
**Growth in wage sum moderated as average hourly earnings maintained declining momentum in October, printing 0.21% m/m (4.1% y/y) compared to 0.33% m/m (4.3% y/y) in September.** As wage growth is a key driver of nominal consumption, we continue to forecast cooling consumption growth towards winter, and thus also easing inflation. That said, alternative indicators, such as the Employment Cost Index, Atlanta Fed's median wage tracker and Indeed Hiring Lab's tracker based on job postings suggest that **nominal wage growth still remains too fast for comfort.**

Productivity growth surged to a 4.7% annualized rate in Q3, exceeding the already robust increase of 3.6% in Q2. Besides contributing to the upside surprise in Q3 GDP, **upbeat productivity growth has considerably calmed unit labour cost growth.** As such, persistently stronger productivity growth would increase the chance of a 'goldilocks' soft landing, as inflation can continue to cool even without a sharp slowdown in growth. That said, forecasting productivity remains as difficult as ever.

Nevertheless, also the latest leading data has continued to support the case for a soft landing, with the service sector continuing to ebb while manufacturing recovered. PMI/ISM price indices suggest that the wave of inflation is mostly over, and employment indices also ticked slightly lower. **However, not all indicators paint a uniform picture.** For example, NFIB's survey data continued to point towards tight labour markets and even rising price pressures, despite some easing since 2022.

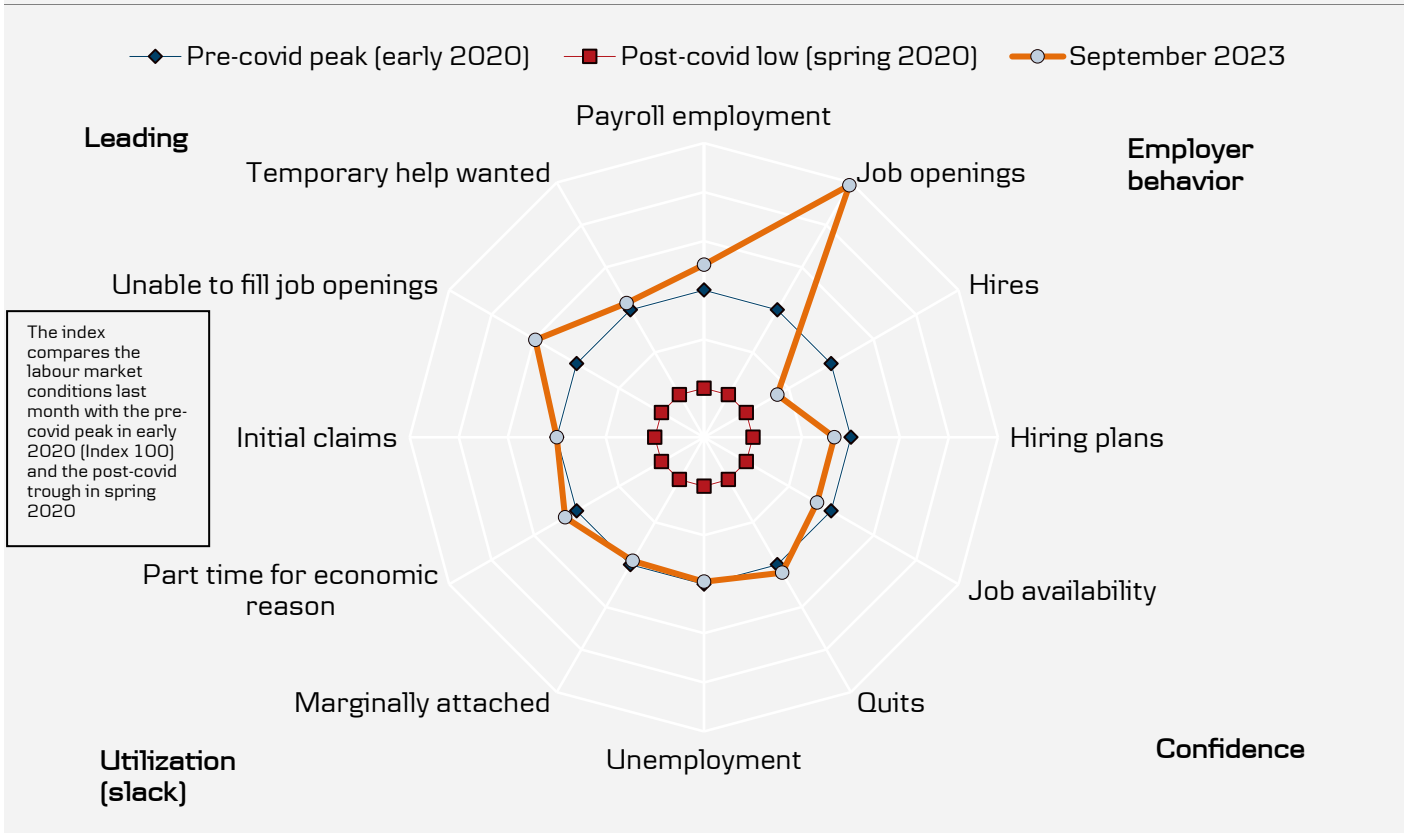
**As a bottom line, we continue to see tight, but gradually easing labour market conditions.** While labour demand has remained stronger than anticipated, recovering labour supply and stronger productivity have eased upward pressure on labour costs. Accordingly, we still believe that the Fed will maintain rates at current restrictive levels, with the first rate cut pencilled in for March 2024. Renewed rise in wage pressures, whether driven by persistent demand, supply recovery losing steam or weaker productivity growth, could push the Fed towards maintaining rates high for longer.

### Auto strikes could explain the decline in manufacturing payrolls



### US labour market in one chart

Several indicators suggest that labour markets still remain tight and in any case, there is still very little slack in the market despite the modest uptick in unemployment rate

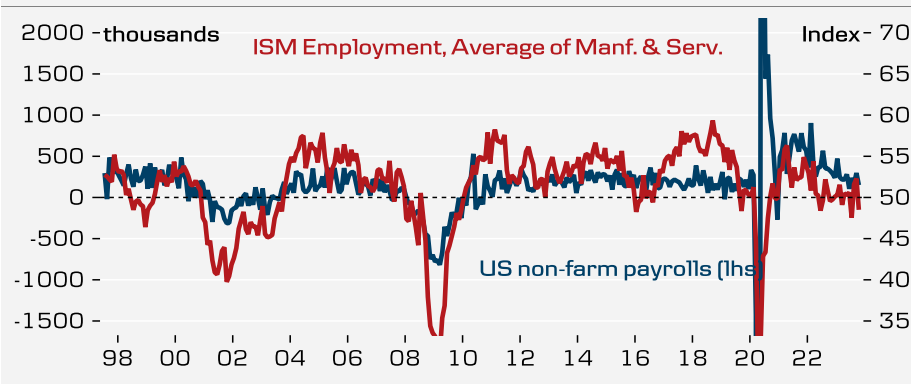


The index compares the labour market conditions last month with the pre-covid peak in early 2020 (Index 100) and the post-covid trough in spring 2020

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 through 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 diverged, with the average hovering around the neutral level of 50



Source: Macrobond Financial, ISM, BLS

## Labour demand

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



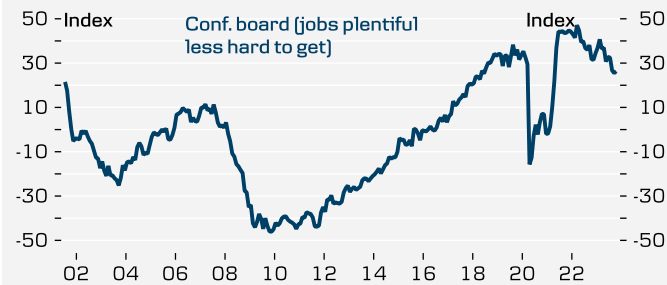
Source: Macrobond Financial, US Department of Labor, BLS

### Hiring plans clearly off the peak



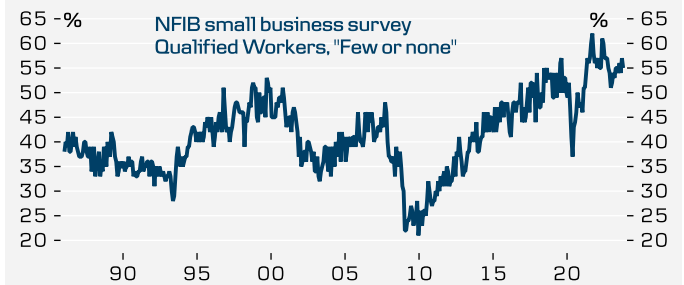
Source: Macrobond Financial, NFIB

### Americans still relatively confident in their job prospects



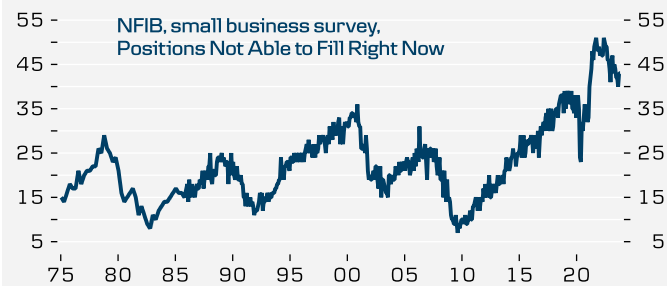
Source: Macrobond Financial, US Department of Labor, BLS

### Labour shortages have not yet fully dissipated



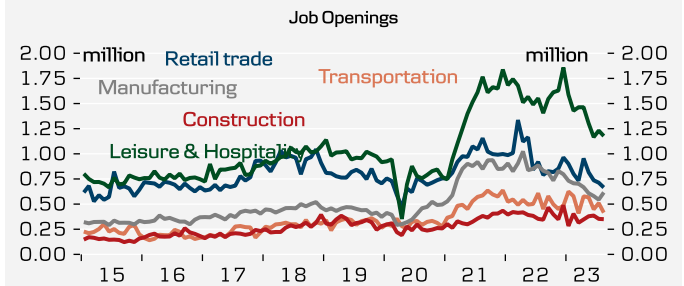
Source: Macrobond Financial, NFIB

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



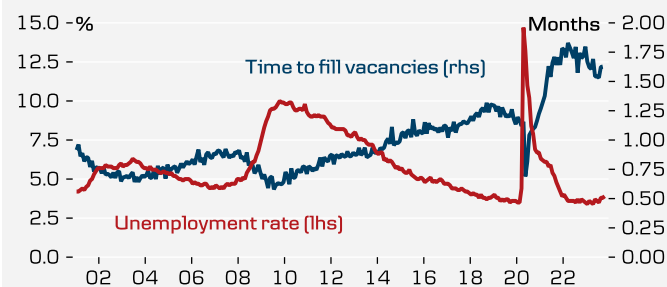
Source: Macrobond Financial, NFIB

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



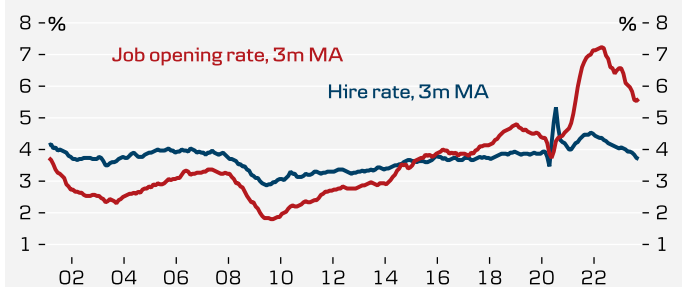
Sources: BLS, Macrobond Financial

### Unemployment rate edges higher, yet remains very low



Source: Macrobond Financial, BLS

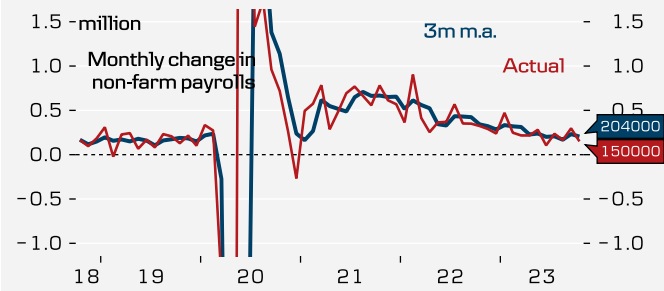
### Some cooling in both job openings and hires



Source: Macrobond Financial, BLS

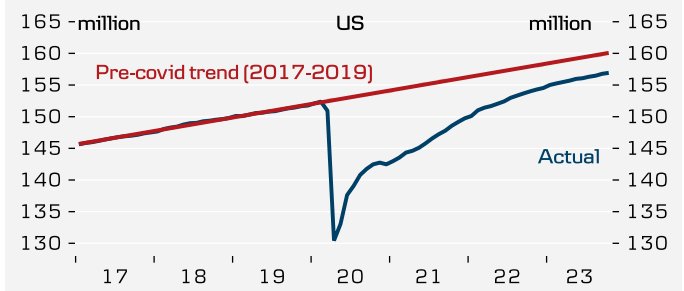
## Employment measures

### Employment growth still at healthy levels



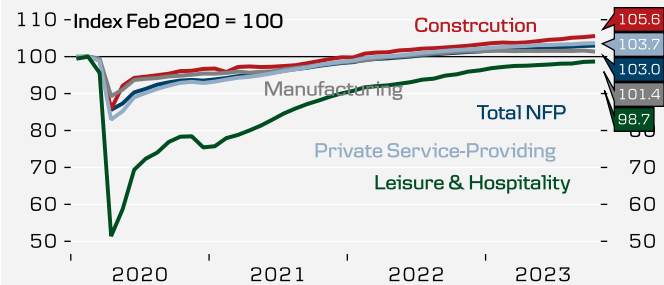
Source: Macrobond Financial, BLS

### Employment above pre-covid level, but still below trend



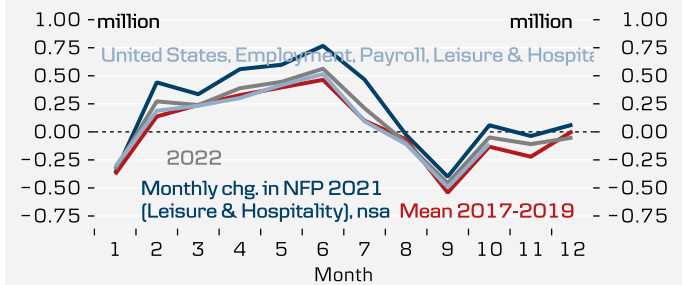
Source: Macrobond Financial, ADP

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



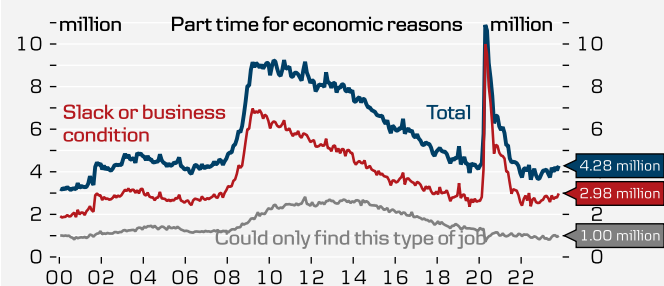
Source: Macrobond Financial, BLS

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



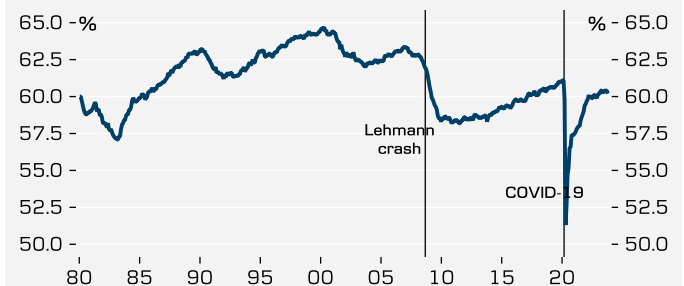
Source: Macrobond Financial, BLS

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



Source: Macrobond Financial, BLS

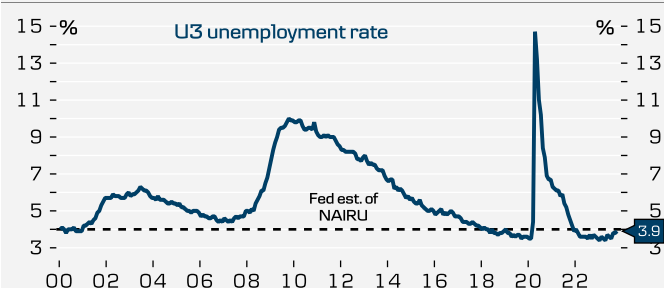
### Employment to population ratio still below previous levels



Source: Macrobond Financial, BLS

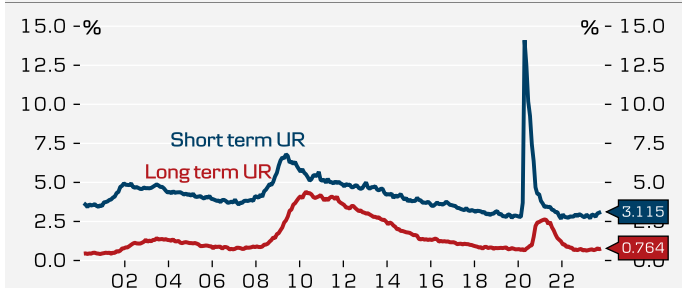
## Unemployment measures

### Unemployment rate is still below Fed's NAIUR estimate



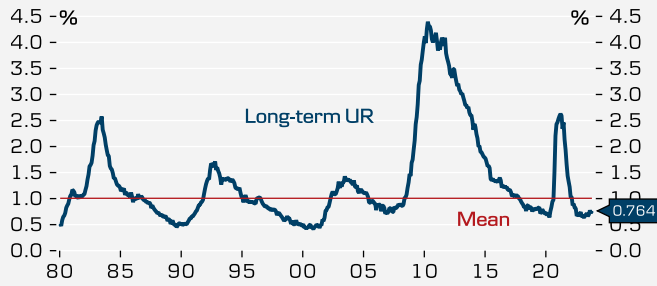
Source: Macrobond Financial, FOMC, BLS

### Long-term unemployment is little changed



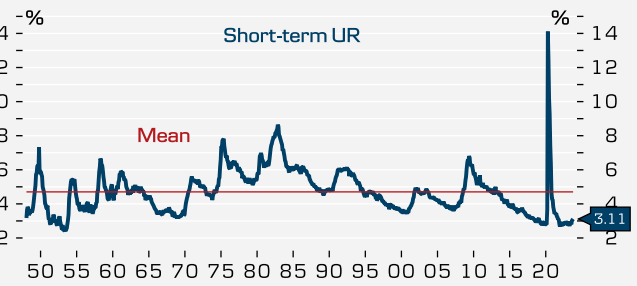
Source: Macrobond Financial, BLS

Long-term unemployment rate below the historical average



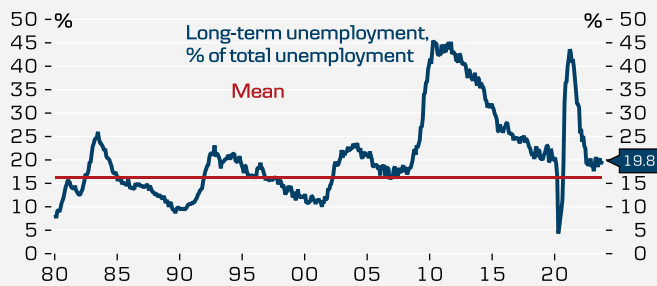
Source: Macrobond Financial, BLS

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



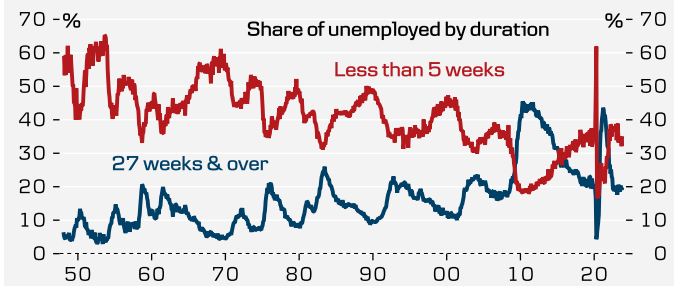
Source: Macrobond Financial, BLS

Long-term unemployment in % of total unemployment remains low



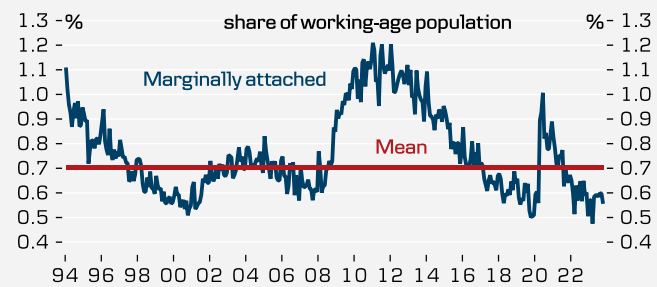
Source: Macrobond Financial, BLS

Long-term unemployment still at low levels



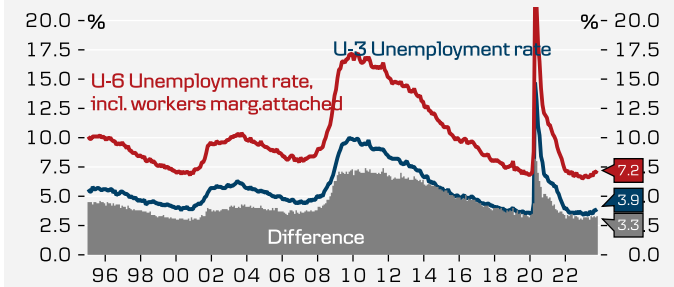
Source: Macrobond Financial, BLS

Marginally attached workers below average



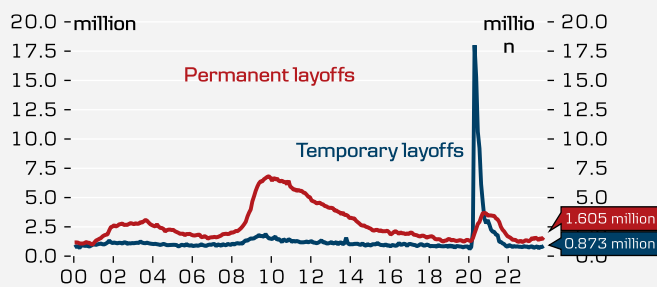
Source: Macrobond Financial, BLS

U6 unemployment slowly increasing



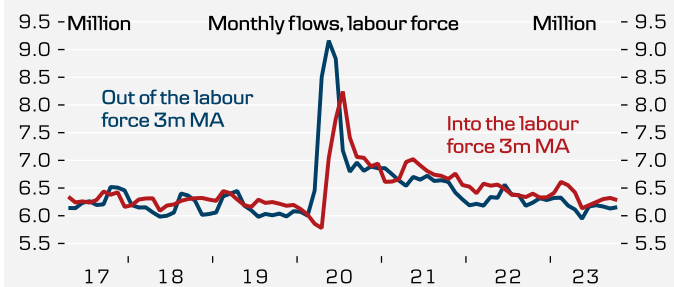
Source: Macrobond Financial, BLS

Permanent layoffs remain low



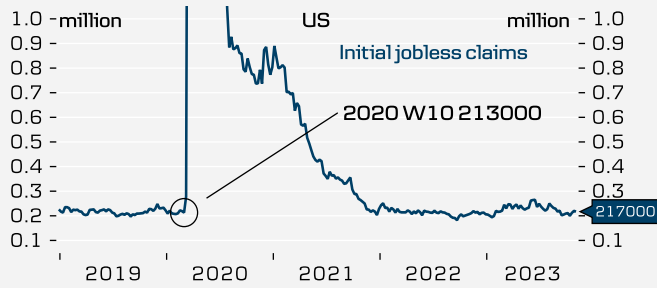
Source: Macrobond Financial, BLS

Labour market flows



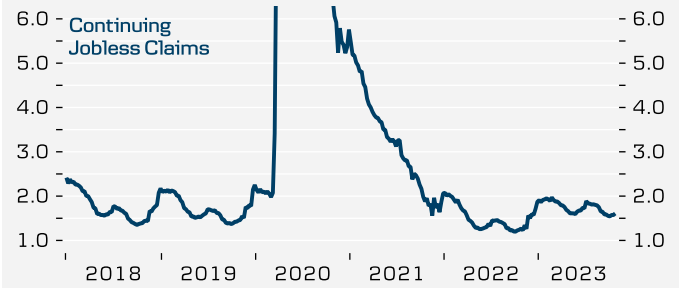
Source: Macrobond Financial, BLS

Initial jobless claims have hardly even risen from the lows



Source: Macrobond Financial, Department of Labor

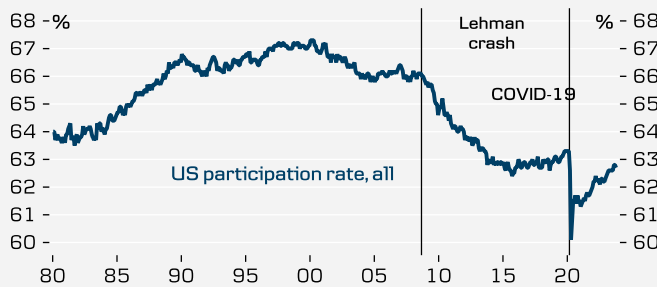
Total continuing claims remain low



Source: Macrobond Financial, Department of Labor

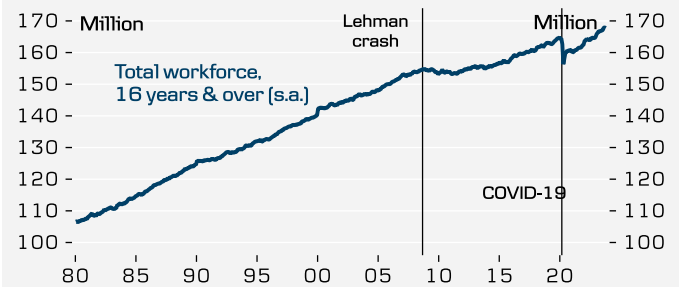
Participation

Participation rate edged higher after stalling in March



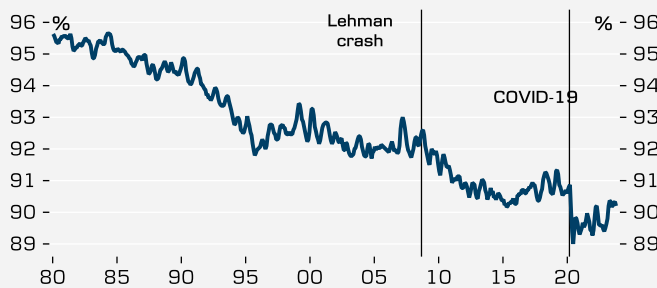
Source: Macrobond Financial, BLS

Labour force recovering, but still below pre-covid trend path



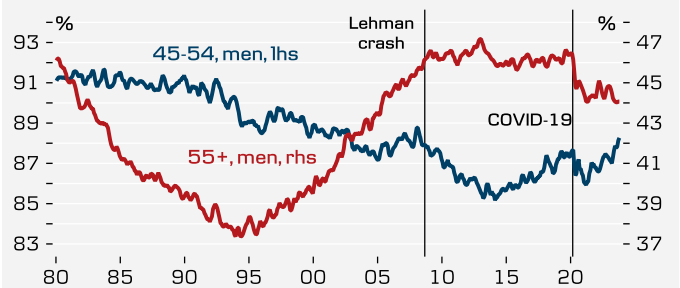
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

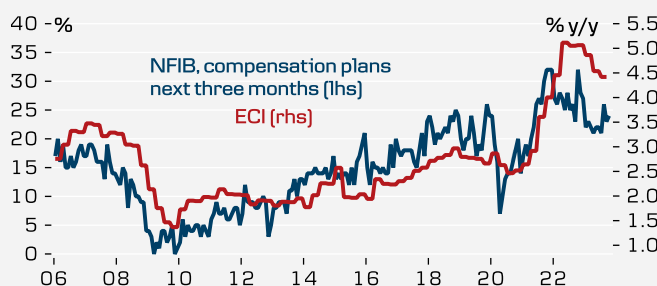
Early retirements have likely contributed to labour shortages



Source: Macrobond Financial, BLS

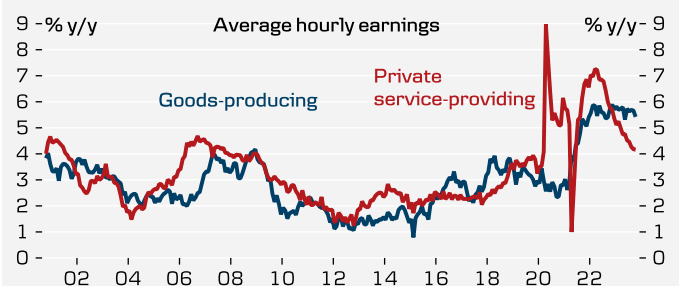
Wage growth and inflation

Employment costs continues to decline



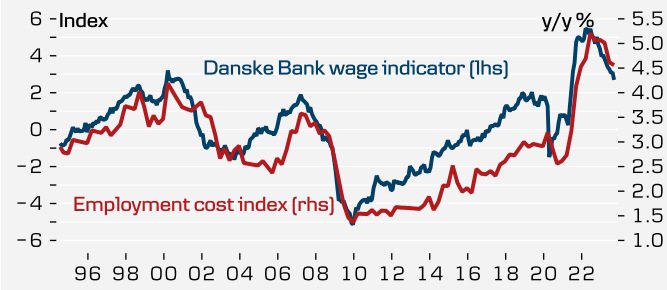
Source: Macrobond Financial, NFIB

Clear signs of easing labour shortages in service-sector



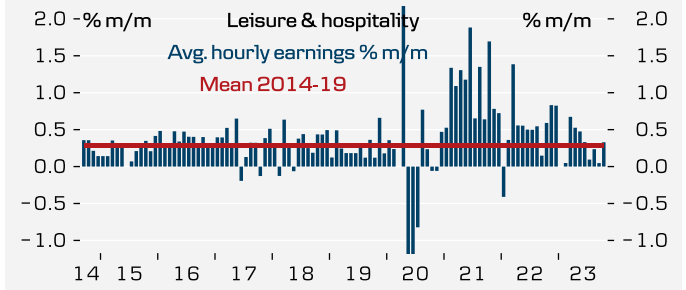
Source: Macrobond Financial, BLS

Declining wage pressure



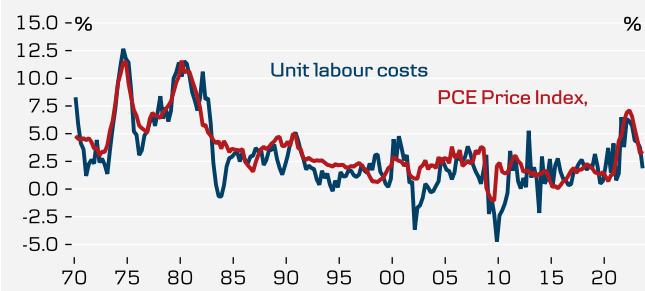
Source: BLS, Danske Bank Markets

Wage growth within "Leisure & Hospitality"



Source: BLS, Conference Board

Unit labour cost growth continuing to turn south



Source: Macrobond Financial, BLS, Census, BEA

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