

14 January 2025

US Labour Market Monitor

Overall well balanced

The cooling trend observed in the US labour market since the late 2022 appears to have paused, but at a level where the labour market generally remains well balanced.

The December Jobs Report came in stronger than expected, with nonfarm payrolls ticking up by 256k (cons: 160k), corroborating solid job growth after hurricanes and strikes distorted past readings. Prior figures were revised modestly down by a cumulative 8k. The unemployment rate edged down somewhat to 4.1%, hovering around most full-employment estimates (chart 1).

The November JOLTs report provided some mixed signals, as job openings beat expectations (8.1m, cons: 7.7m, prior: 7.8m) but hiring slowed and involuntary layoffs ticked slightly higher. **Altogether, it seems labour demand remains at healthy levels, with job openings reaching the highest level since May 2024.** The ratio of unfilled vacancies per unemployed is stable, close to its pre-pandemic average (chart 2).

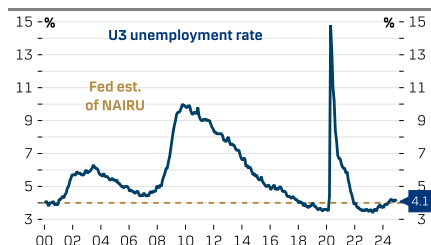
Wage growth declined to 0.28% m/m SA in December (prior: 0.4%) with the yearly measure at 3.9% y/y. For now, wage growth remains somewhat elevated, but with past years' solid productivity gains, firms' unit labour costs have remained in check. Recent signs of consumers' inflation expectations ticking higher – both 1y and 5y according to data from the University of Michigan – could pose an upside risk to labour costs if workers begin to demand higher wages again. For the time being, Atlanta Fed's estimation has suggested that job switchers no longer earn unusually high wage increases relative to those staying at their jobs.

Leading indicators provide a somewhat ambiguous picture. On the one hand, the ISM employment indices suggest that employment is weakening in the manufacturing sector but remains strong in services. Conversely, the PMI employment indices signal increasing employment across the board. We recommend interpreting the volatile data with caution.

Overall, data affirms the notion of well-balanced labour markets with no clear signs of overheating. This is good news for the Fed, and **a key reason for why we still believe the Fed will cut rates in March despite the strong jobs report.** However, conditions could become uncanny if labour markets begin to show signs of renewed tightness – particularly as the unemployment rate remains close to most full-employment estimates.

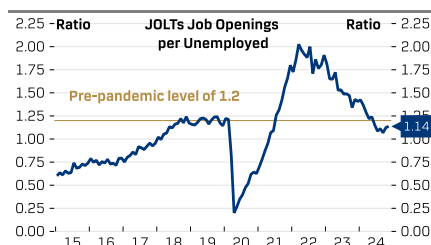
Weakening growth in labour supply, which was the backbone of past year's stronger than expected macro environment, could pose two-sided risks to current labour markets conditions. BLS' data shows that native-born labour supply growth stalled in 2024, and that immigration was the main driver of positive supply growth (chart 3). At the same time, a study from *CBO* suggest that 73% of the past year's net immigration was undocumented workers – and as we have flagged before, inflow of undocumented immigrants already slowed in H2 of 2024. Importantly, while strong labour supply growth was one of the key reasons the US economy outperformed expectations last year and inflation continued to moderate – **tighter labour supply could put upward pressure on labour costs, reigniting inflation concerns or forcing some companies to reduce staff.**

Chart 1: Unemployment rate hovering around the full employment estimate



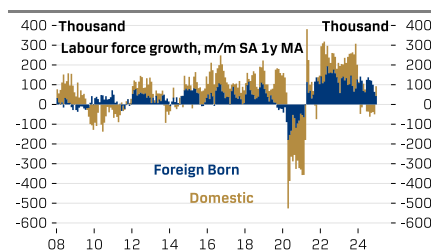
Sources: Macrobond Financial, Federal Reserve

Chart 2: Unfilled vacancies per unemployed stable at pre-pandemic levels



Sources: Macrobond Financial, The Bureau of Labor Statistics (BLS)

Chart 3: Native labour supply growth has stalled



Sources: Macrobond Financial, BLS

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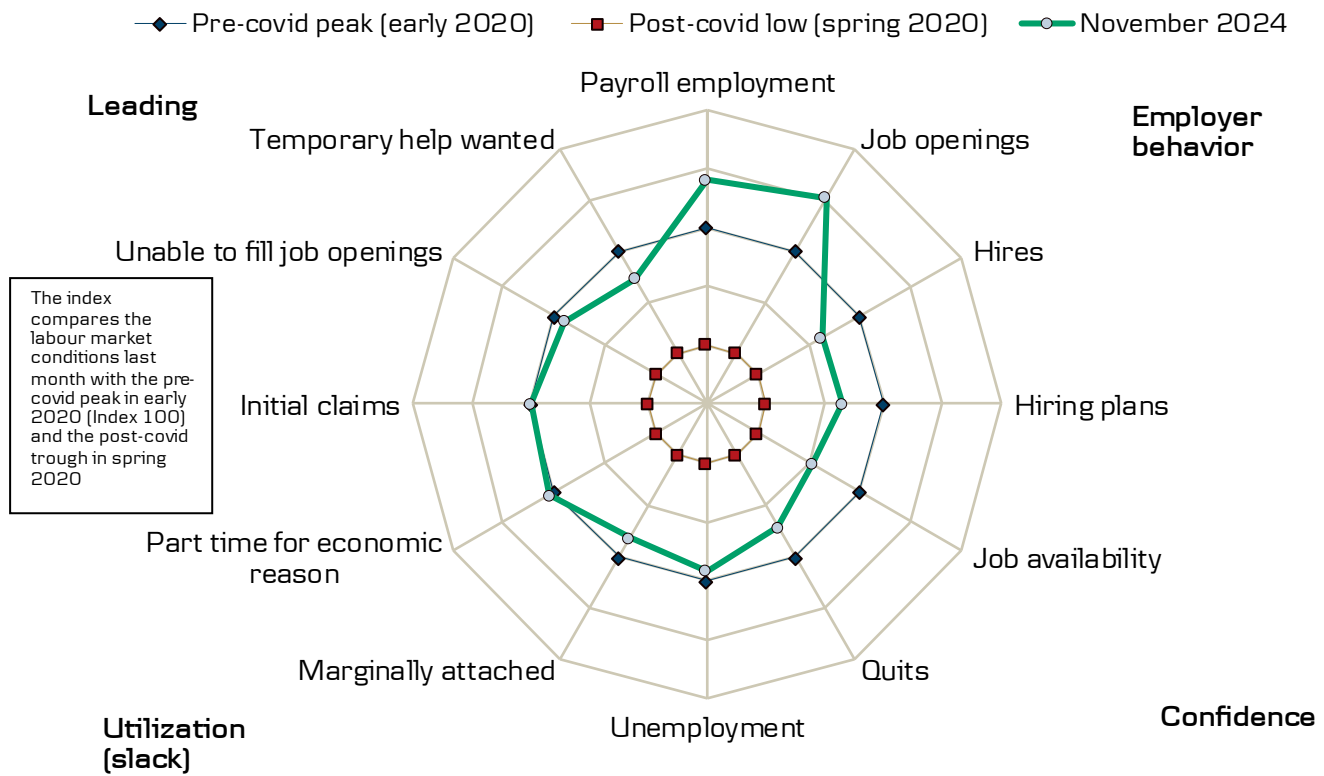
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US labour market in one chart

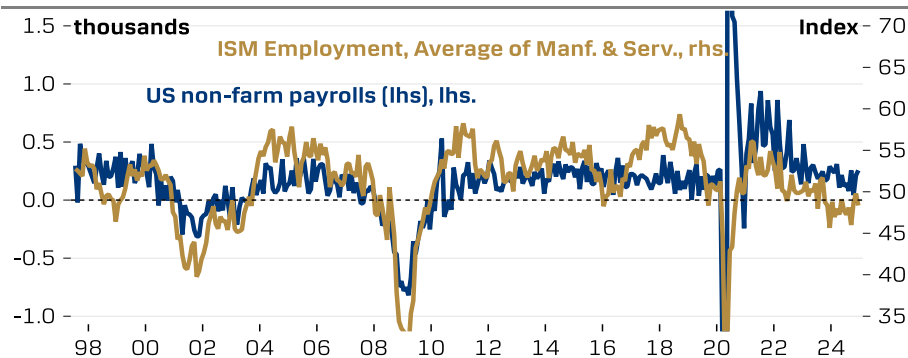
Labour market conditions vary across sectors and employers are holding on to their workers. As such, labour shortages still persist on some sectors even if hiring overall has already cooled down clearly



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: U. S. Bureau of Labor Statistics (BLS) (JOLTS), Atlanta Fed, Macrobond Financial

ISM employment vs nonfarm

ISM employment indices point towards some easing in nonfarm payrolls growth



Source: Macrobond Financial, ISM, BLS

Labour demand

Job openings have largely normalized



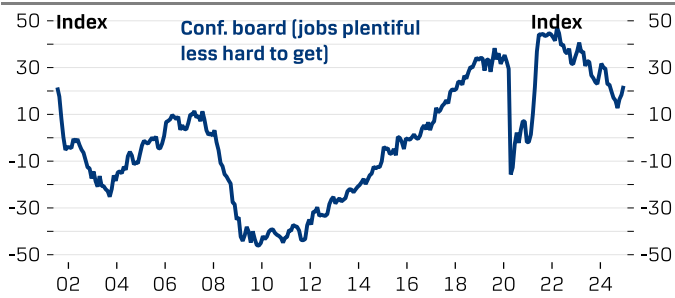
Source: Macrobond Financial, US Department of Labor, BLS

Hiring plans climbing higher



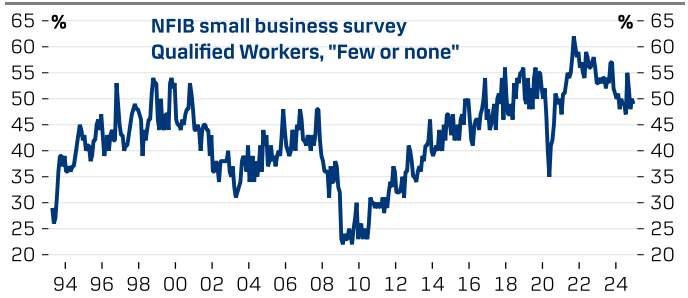
Source: Macrobond Financial, NFIB

Americans still relatively confident in their job prospects



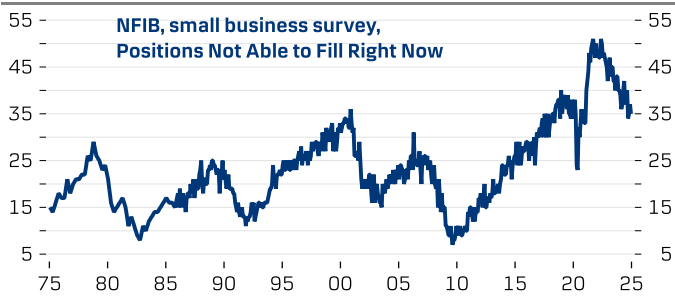
Source: Macrobond Financial, US Department of Labor, BLS

Labour shortages have not yet fully dissipated



Source: Macrobond Financial, NFIB

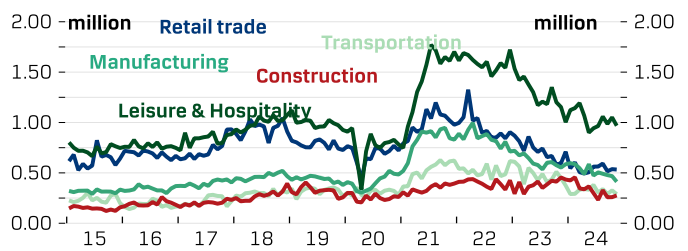
Difficulties is down from its historically tight starting point



Source: Macrobond Financial, NFIB

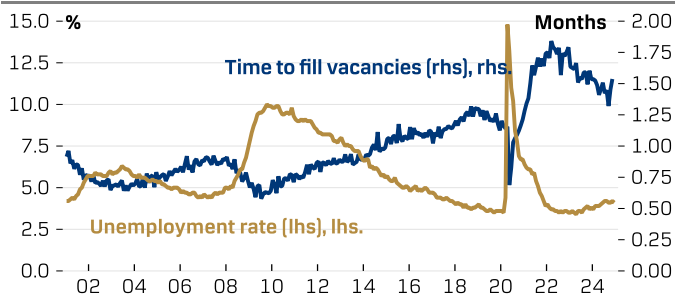
Among sectors, Leisure and hospitality remains the hardest hit by the labour shortages

Job Openings



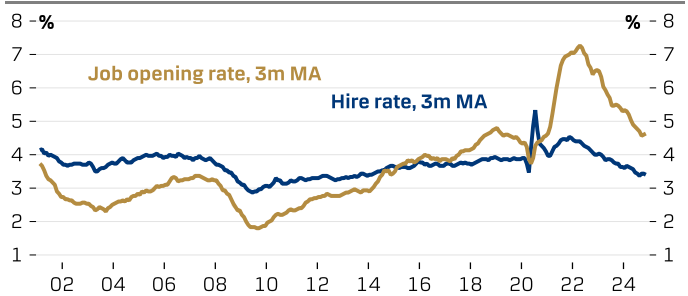
Sources: BLS, Macrobond Financial

Unemployment rate ticks down



Source: Macrobond Financial, BLS

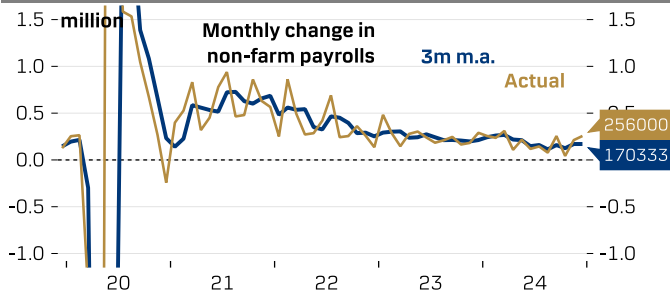
Some cooling in both job openings and hires



Source: Macrobond Financial, BLS

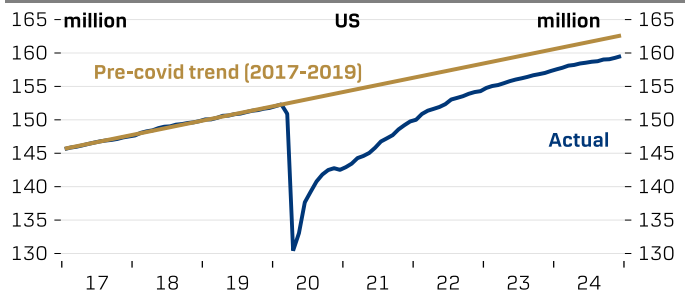
Employment measures

Employment growth increasing somewhat



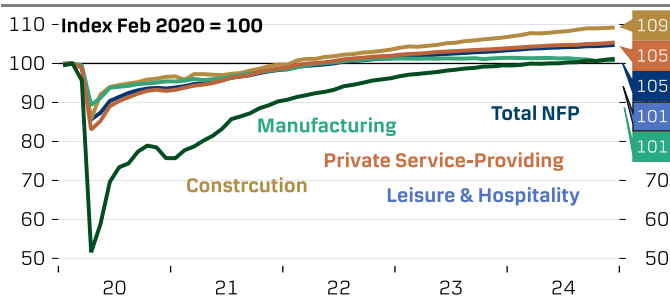
Source: Macrobond Financial, BLS

Employment above pre-covid level, but still below trend



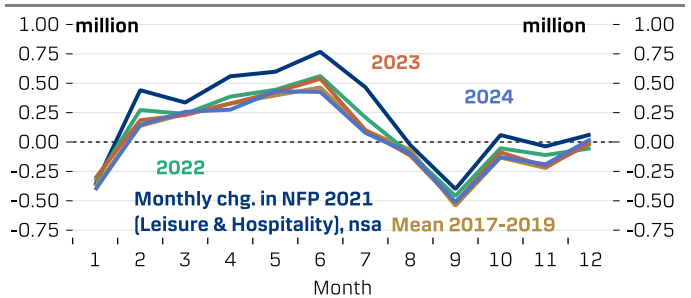
Source: Macrobond Financial, ADP

"Leisure & Hospitality" sector above the February 2020 employment level



Source: Macrobond Financial, BLS

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



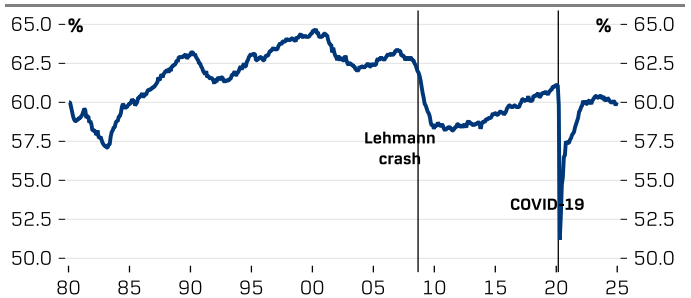
Source: Macrobond Financial, BLS

Fewer people working part-time for economic reasons declining slightly



Source: Macrobond Financial, BLS

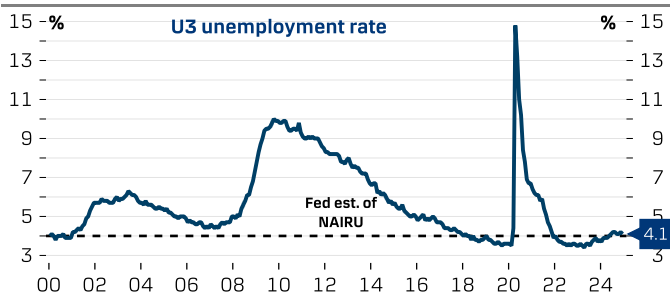
Employment to population ratio still below previous levels



Source: Macrobond Financial, BLS

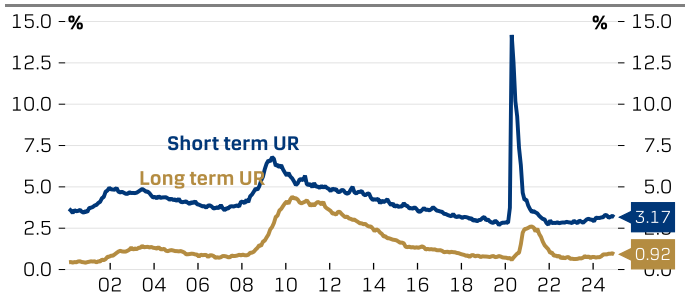
Unemployment measures

Unemployment rate close to full employment estimate



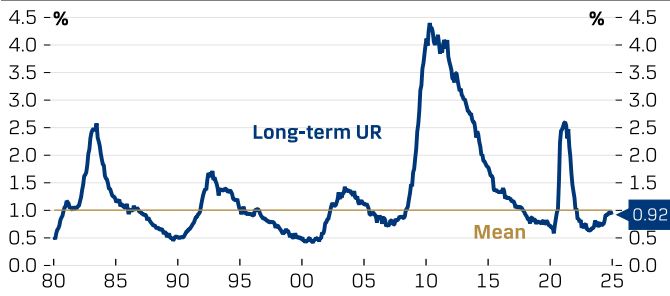
Source: Macrobond Financial, FOMC, BLS

Long-term unemployment moved a bit lower



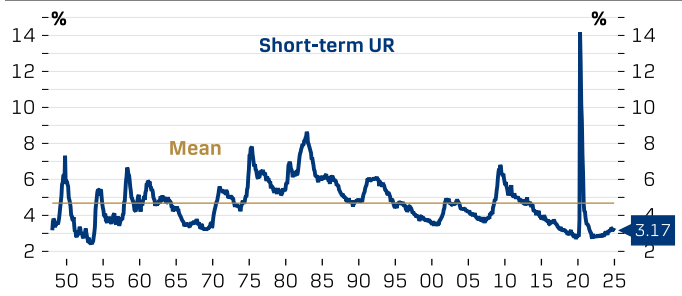
Source: Macrobond Financial, BLS

Long-term unemployment rate below the historical average



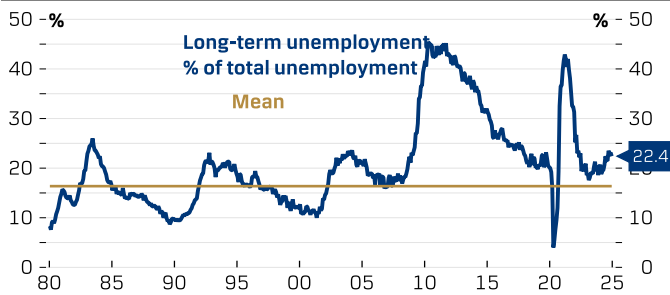
Source: Macrobond Finacial, BLS

Short-term unemployment rate below the historical average



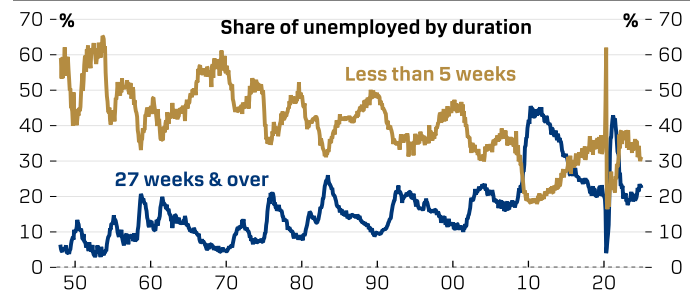
Source: Macrobond Finacial, BLS

Long-term unemployment in % of total unemployment remains low



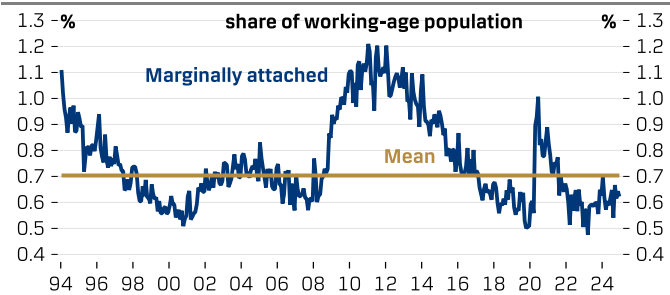
Source: Macrobond Finacial, BLS

Long-term unemployment still at low levels



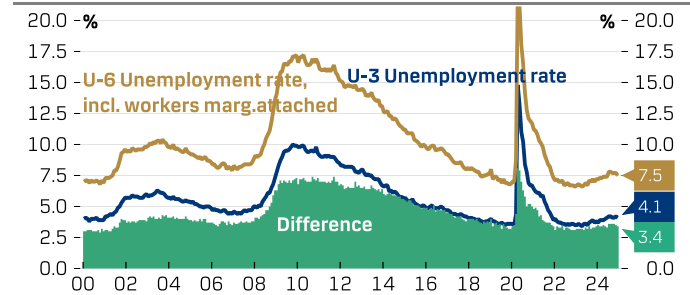
Source: Macrobond Finacial, BLS

Marginally attached workers below average



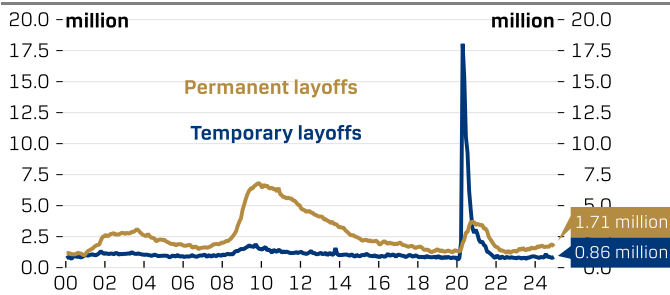
Source: Macrobond Finacial, BLS

Unemployment declined in December



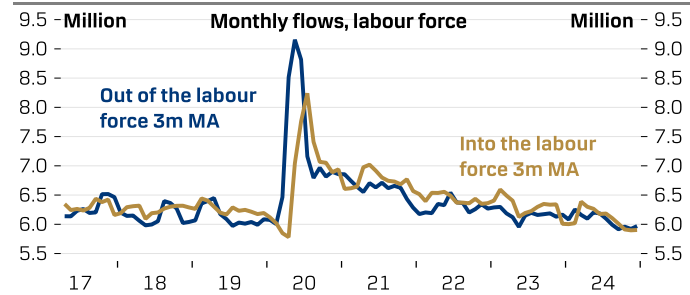
Source: Macrobond Finacial, BLS

Permanent layoffs remain low



Source: Macrobond Finacial, BLS

Labour market flows



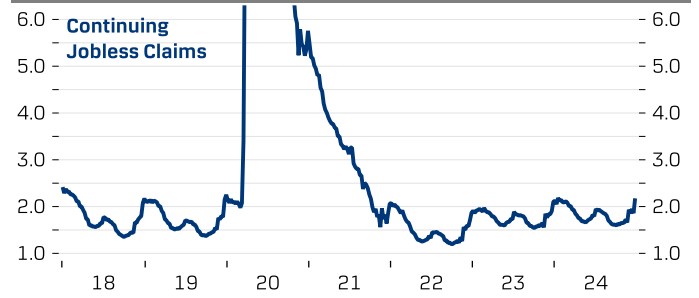
Source: Macrobond Finacial, BLS

Initial jobless claims have hardly even risen from the lows



Source: Macrobond Financial, Department of Labor

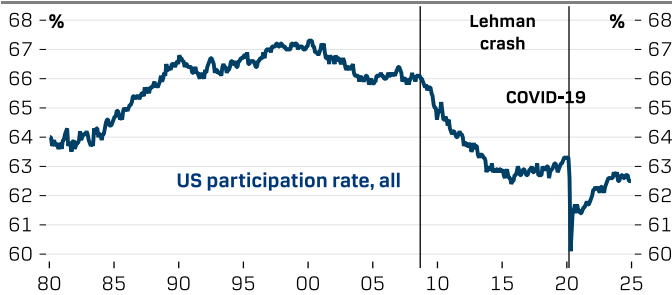
Total continuing claims remain low



Source: Macrobond Financial, Department of Labor

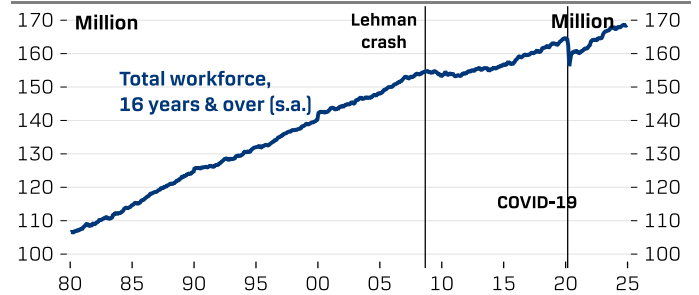
Participation

Participation rate staying put at 62.5%



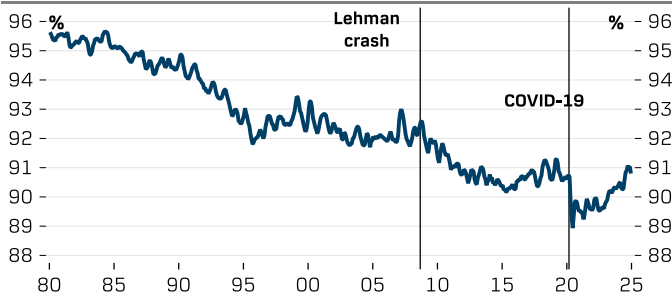
Source: Macrobond Financial, BLS

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



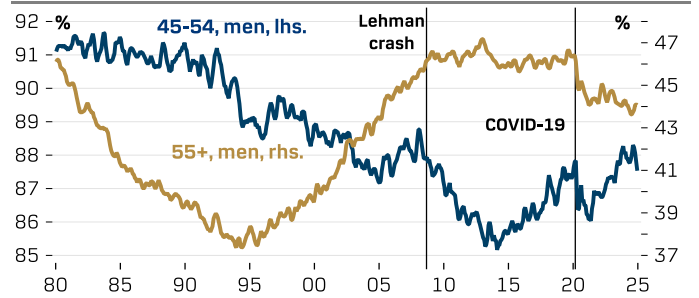
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

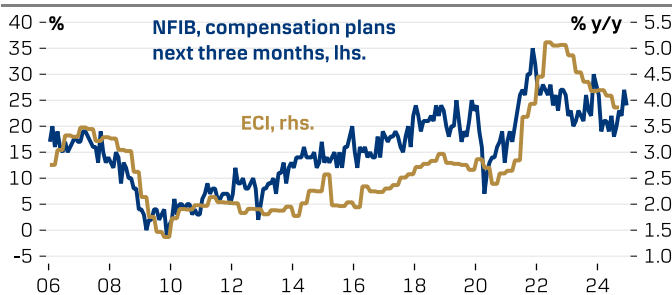
Early retirements have likely contributed to labour shortages



Source: Macrobond Financial, BLS

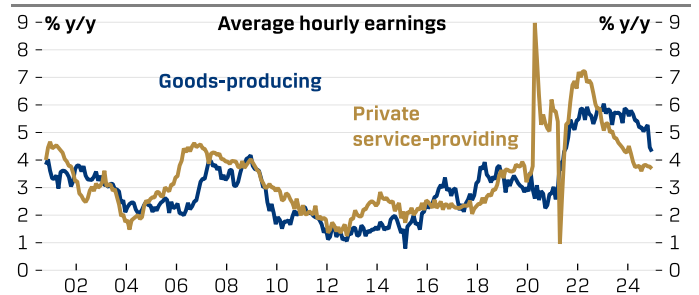
Wage growth and inflation

Employment cost growth creeping slightly lower



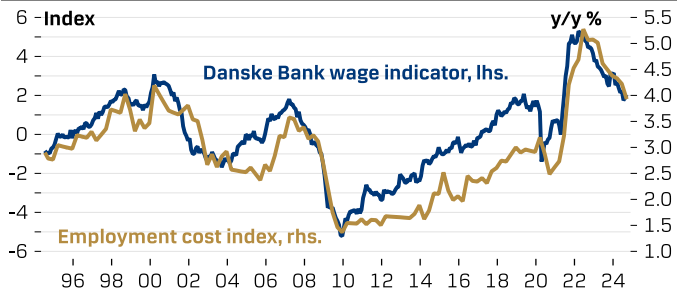
Source: Macrobond Financial, NFIB

Clear signs of easing labour shortages in service-sector



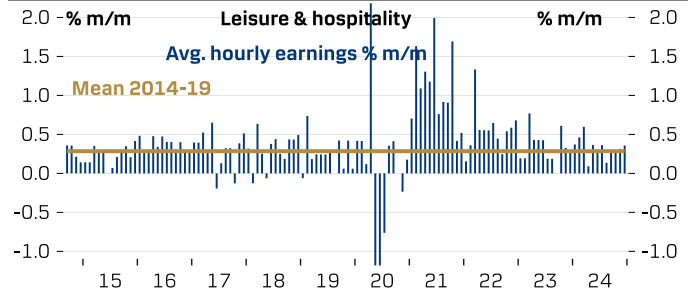
Source: Macrobond Financial, BLS

Declining wage pressure



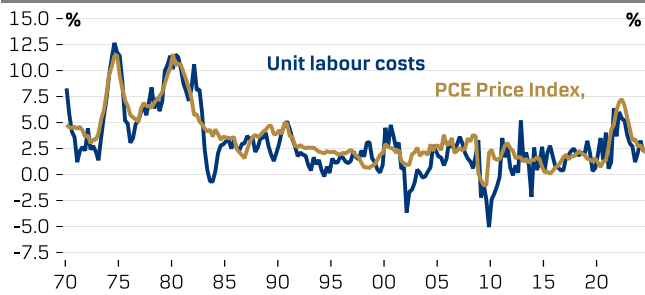
Source: BLS, Danske Bank Markets

Wage growth within "Leisure & Hospitality"



Source: BLS, Conference Board

Unit labour cost growth has generally cooled since 2022



Source: Macrobond Financial, BLS, Census, BEA

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