

US Labour Market Monitor

Labour market conditions remain strong despite mixed economic data

US employment growth rebounded to 528,000 in the July Jobs Report, clearly outpacing the consensus expectation of a cooling labour market amid rising recession fears. June figures were also revised higher by 26,000, but besides the strong headline growth, it was striking how broad-based the recovery in employment was across different sectors. Even housing and manufacturing, which are typically among the hardest hit sectors by tightening financial conditions and weakening global business cycle, recorded job gains. Leisure & Hospitality also accounted for a large share of the new jobs, reflecting that the economy is still recovering from the lingering effects of the pandemic.

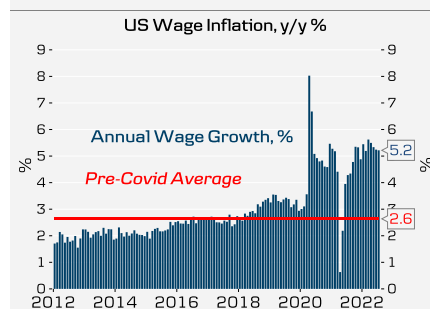
In contrast, labor force participation rate declined to 61.1%, signalling still persistent labour shortages. While the latest JOLTs job openings data from June does suggest that the peak labour demand is already behind, the persistent imbalance between demand and supply continues to support wage inflation clearly above levels consistent with Fed's 2% inflation target.

Average hourly earnings rose by seasonally adjusted 0.47% m/m in July, or nearly 5.8% m/m annualized. Given the 2% inflation target and labour productivity growth averaging slightly above 1% during the 2010s before the pandemic, Fed would prefer wage inflation moderating towards 3%, as was the case in 2018-2019. With Q2 unit labour cost growth still outpacing the rise in prices, wage growth continue to support price inflation at too high levels, which is the most evident in the clear pick-up in core services inflation.

Alternative labour market indicators are slightly less upbeat than the traditional establishment survey, which is used to estimate the non-farm payrolls. Despite this, we see little signs of the economic momentum falling off a cliff. NFIB Small Business indicators of labour shortages eased moderately in July, as 49% of respondents reported not being able to fill their open positions right now. This was slightly down from the recent peak of 51% in May, but still significantly above historical levels. However, hiring plans still remain around spring levels. The household survey used for calculating the unemployment rate registered a three-month average employment gain of only 61,700 during May-July, much weaker than the 437,000 in the establishment survey. The household survey is, however, typically more volatile and the deviation is not unusually large in historical context.

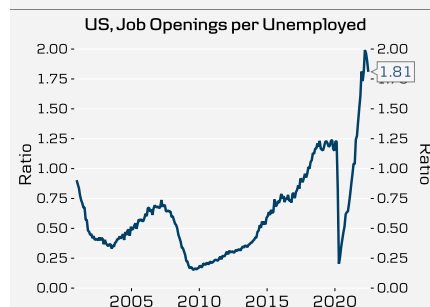
As we pointed in *FX Strategy - Expansion, inflation and a strong USD*, 9 August, the US GDP has remarkably reached the pre-covid trend even though the persistent drop in labour supply would suggest that the trend path of potential GDP has actually declined. This would suggest that the output gap has turned positive and that Fed needs to continue tightening financial conditions in order to bring aggregate demand to more sustainable level. With inflation expectations still remaining at elevated levels, we suspect **Fed will continue hiking until we start to see clear signals of a labour market conditions cooling, which in our view is not yet the case.**

Wage growth remains at very elevated levels



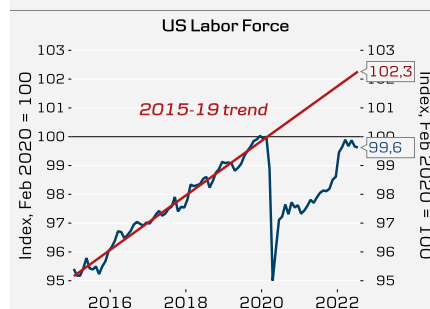
Sources: BLS, Macrobond Financial

Demand has rolled over, but labour market remains hot



Sources: BLS, Macrobond Financial

Labour force participation has not recovered from the pandemic



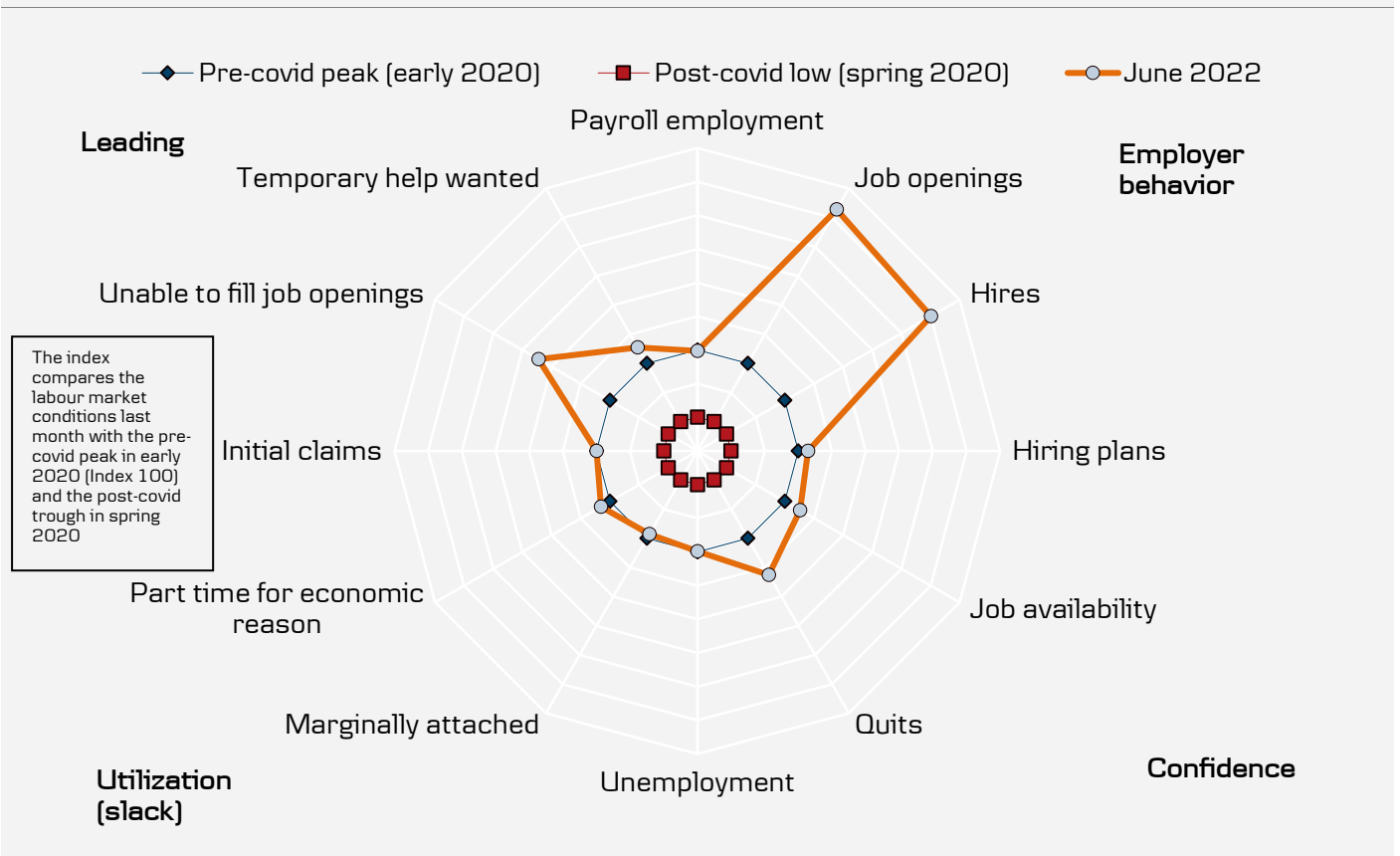
Sources: BLS, Macrobond Financial

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US labour market in one chart

Most indicators still point towards strong labour demand despite the recent recession fears – outward moves indicate stronger labour market



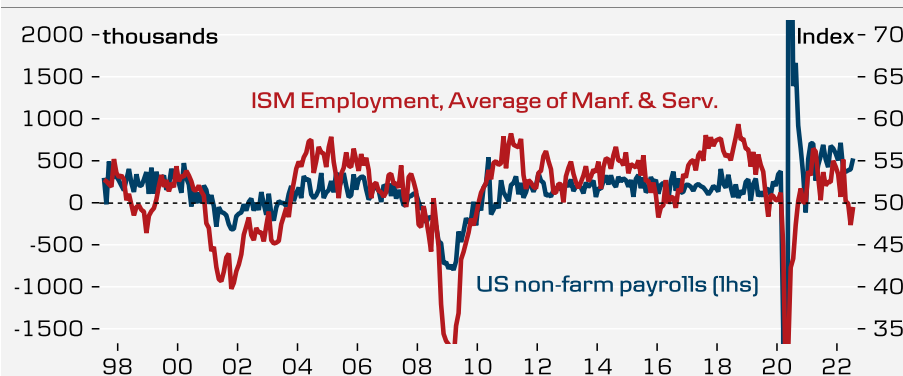
Note: the diagram shows the level of tightness of different US labour market key figures at different times, compared with the level of the same figures in the pre-covid peak in early 2020 (index=100) and post-covid through in spring (index = 0). Counter-cyclical figures (jobless claims, marginally attached 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

PMI employment vs nonfarm

PMI employment indices rose in July, although they still remain below 50



Source: Macrobond Financial, ISM, BLS

Labour demand

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



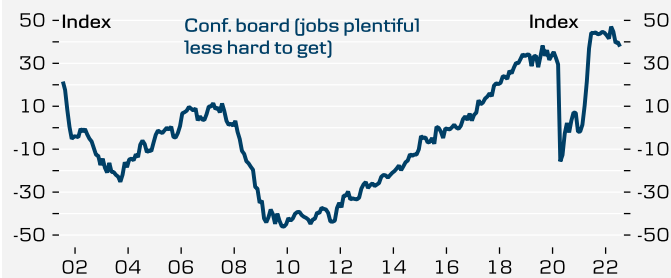
Source: Macrobond Financial, US Department of Labor, BLS

Labour demand is strong but with indications of relief



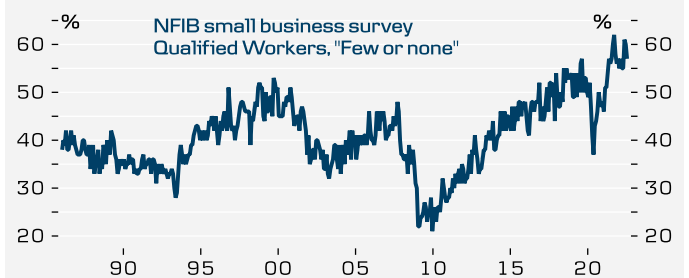
Source: Macrobond Financial, NFIB

Americans think that jobs are plentiful



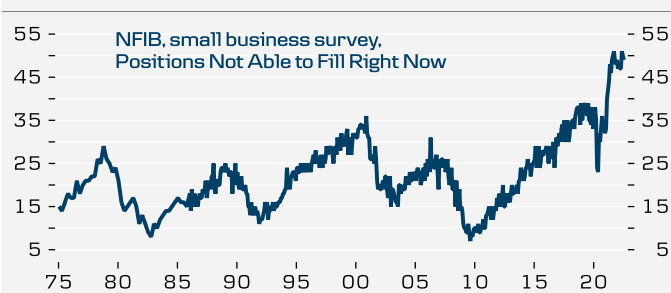
Source: Macrobond Financial, US Department of Labor, BLS

Labor shortages persist despite the looming recession fears



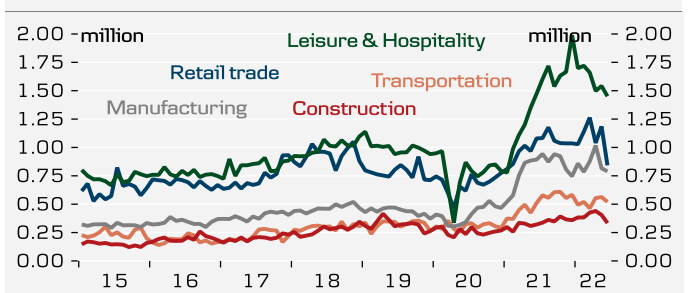
Source: Macrobond Financial, NFIB

Businesses are still unable to fill positions



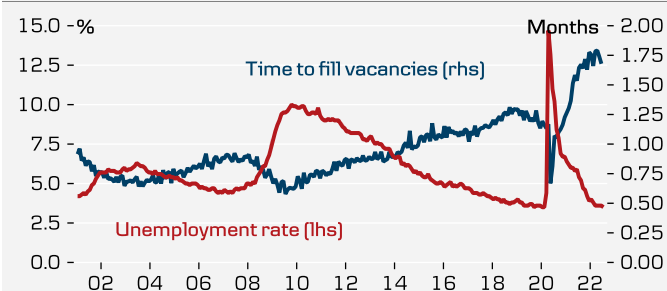
Source: Macrobond Financial, NFIB

Leisure and hospitality is leading with amounts of job openings per sector



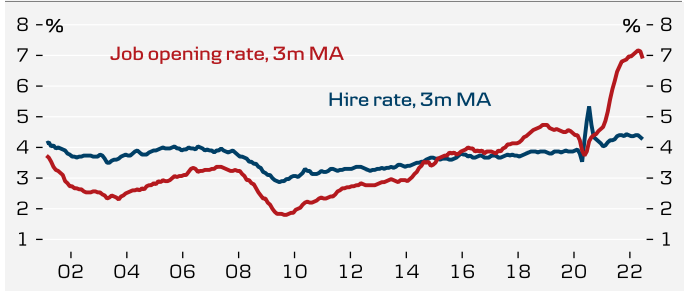
Sources: BLS, Macrobond Financial

Unemployment fell to pre-covid low of 3.5% in July



Source: Macrobond Financial, BLS

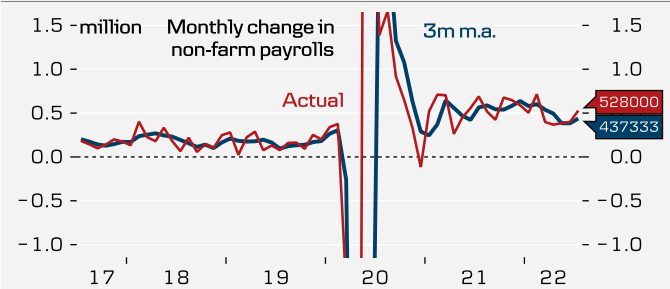
Businesses are still unable to fill positions



Source: Macrobond Financial, BLS

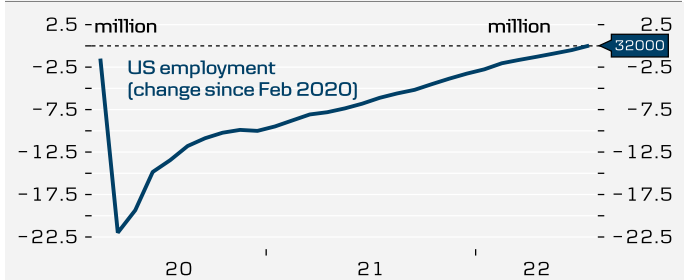
Employment measures

Strong jobs growth in June



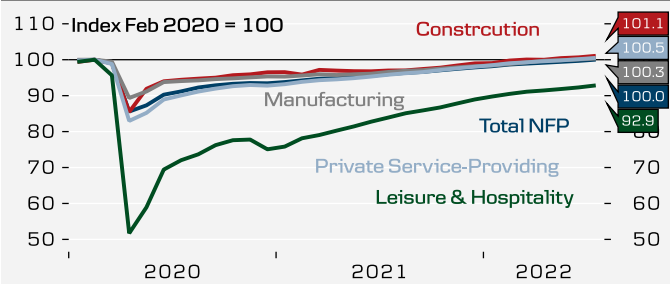
Source: Macrobond Financial, BLS

Employment finally reached the pre-pandemic level



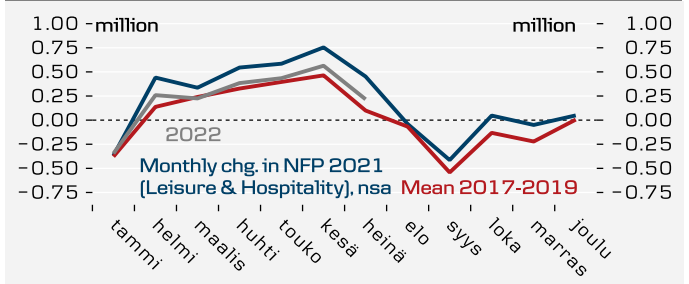
Source: Macrobond Financial, ADP

All sectors apart from "Leisure & Hospitality" has reached its February 2020 level



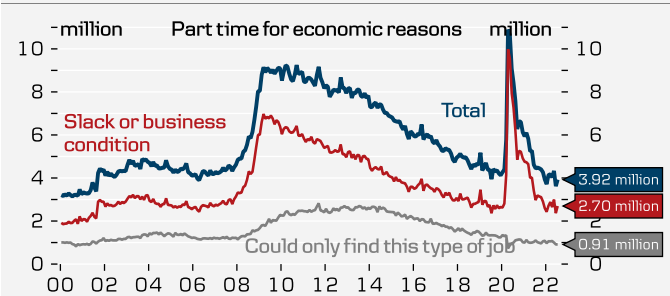
Source: Macrobond Financial, BLS

Monthly change in "leisure & hospitality" employment remains elevated as lingering pandemic effects fade



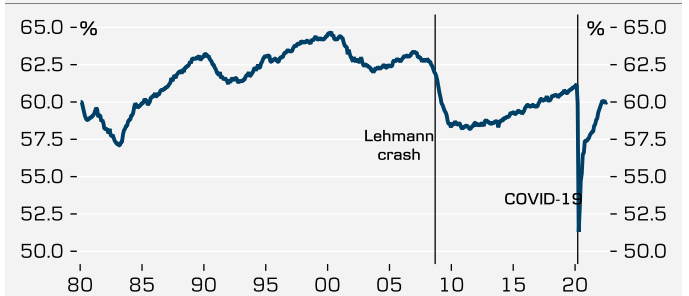
Source: Macrobond Financial, BLS

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



Source: Macrobond Financial, BLS

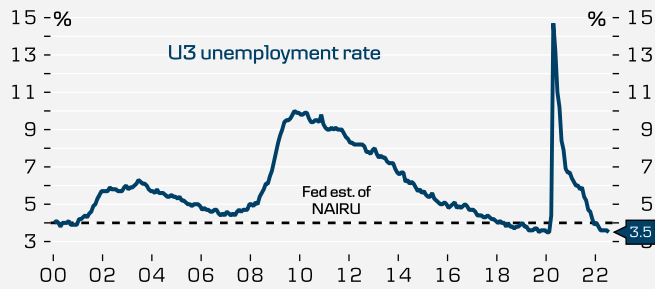
Employment to population ratio still below previous levels



Source: Macrobond Financial, BLS

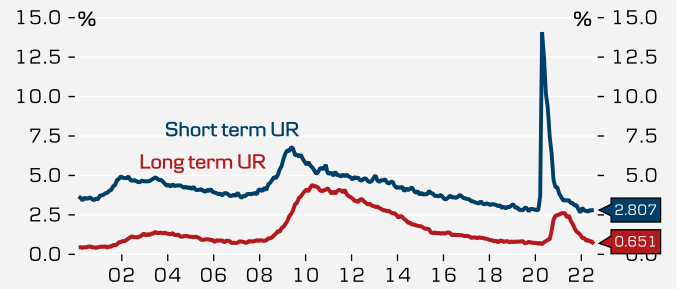
Unemployment measures

Unemployment rate is well below Fed's NAIUR estimate



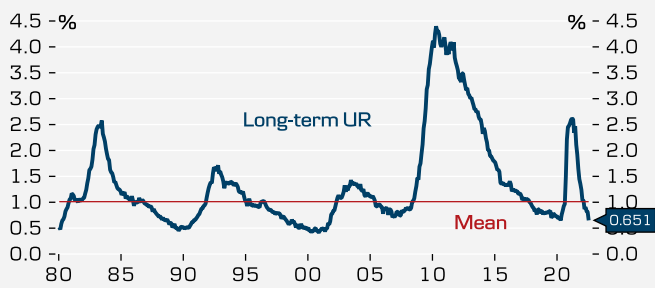
Source: Macrobond Financial, FOMC, BLS

Long-term unemployment is little changed but still a bit higher than before covid



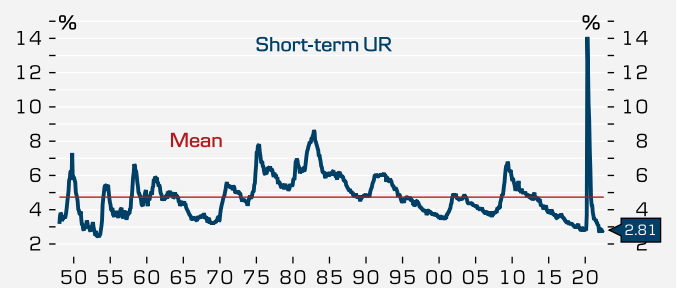
Source: Macrobond Financial, BLS

Long-term unemployment rate below the historical average



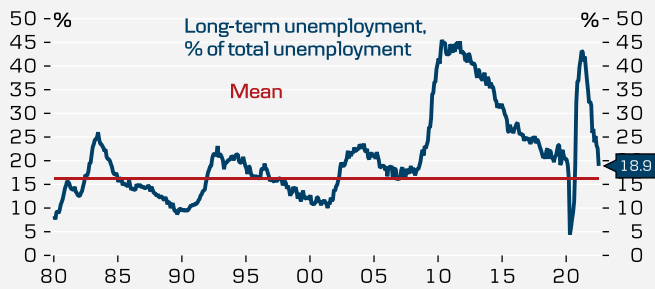
Source: Macrobond Financial, BLS

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



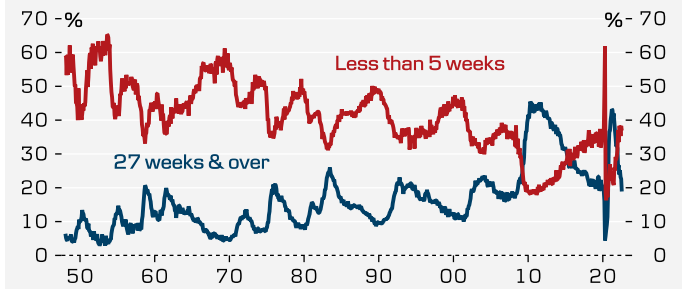
Source: Macrobond Financial, BLS

Long-term unemployment in % of total unemployment is falling



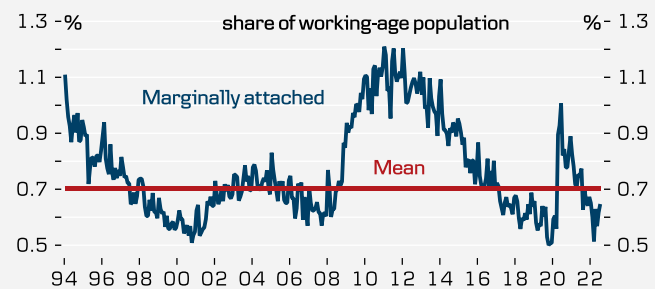
Source: Macrobond Financial, BLS

Unemployment - duration



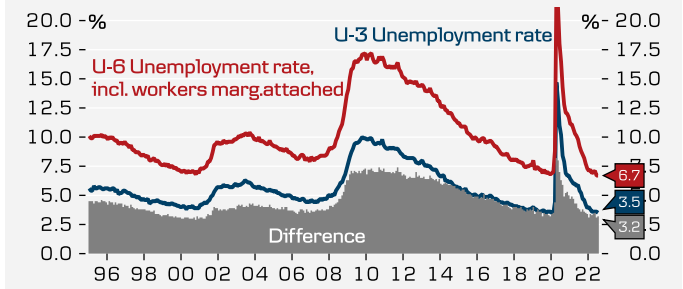
Source: Macrobond Financial, BLS

Marginally attached workers increased but is below average



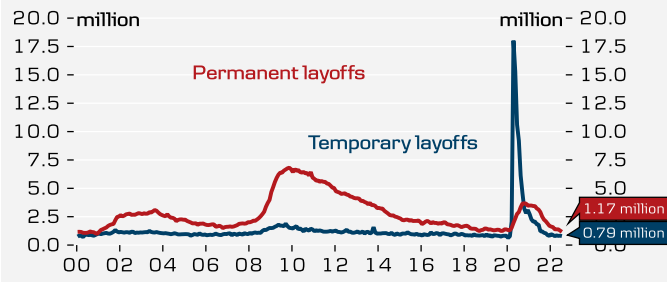
Source: Macrobond Financial, BLS

U6 unemployment is now below pre-COVID levels



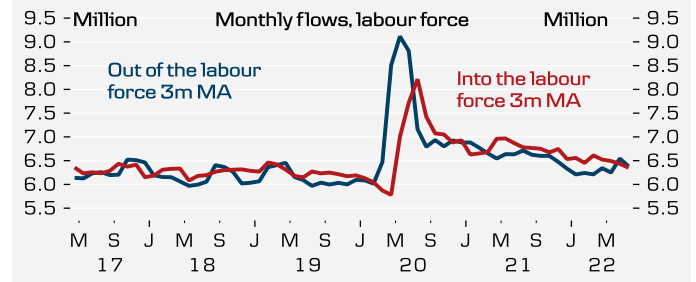
Source: Macrobond Financial, BLS

Permanent layoffs moved sideways



Source: Macrobond Financial, BLS

Labour market flows



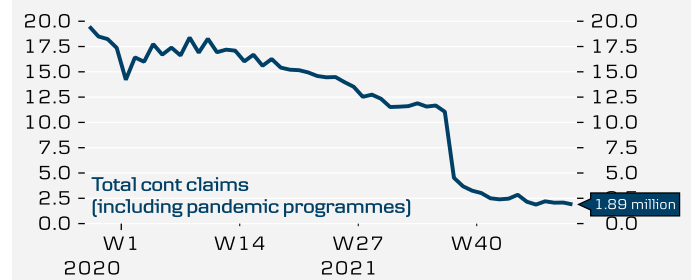
Source: Macrobond Financial, BLS

Initial jobless claims back to pre-covid levels



Source: Macrobond Financial, Department of Labor

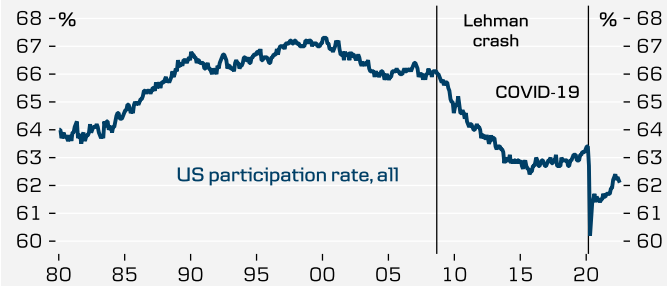
Total continuing claims are going sideways but below pre-COVID levels



Source: Macrobond Financial, Department of Labor

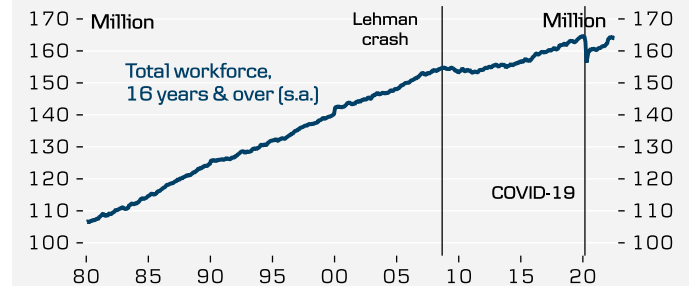
Participation

Participation rate remains clearly below pre-pandemic levels



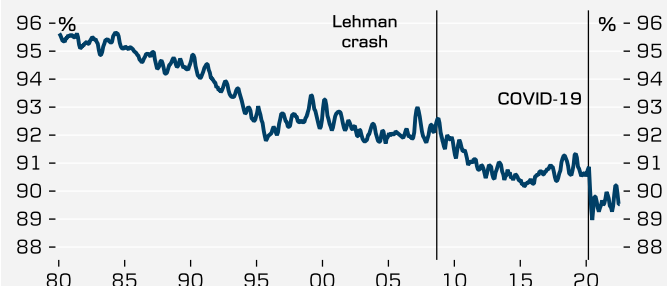
Source: Macrobond Financial, BLS

Labour force persistently below pre-covid path



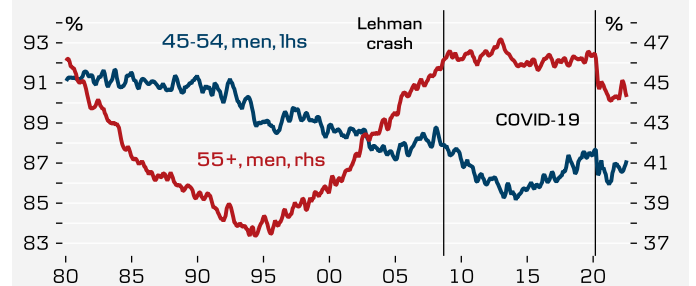
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

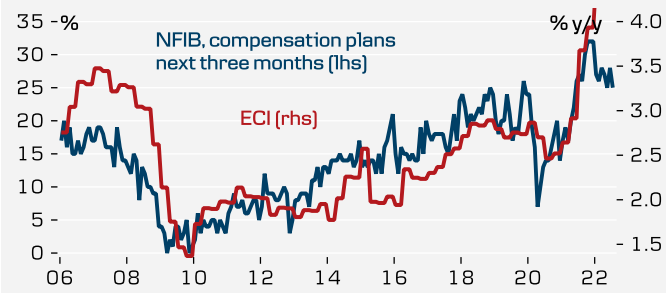
Participation rate, 45-54 and 55-plus, men



Source: Macrobond Financial, BLS

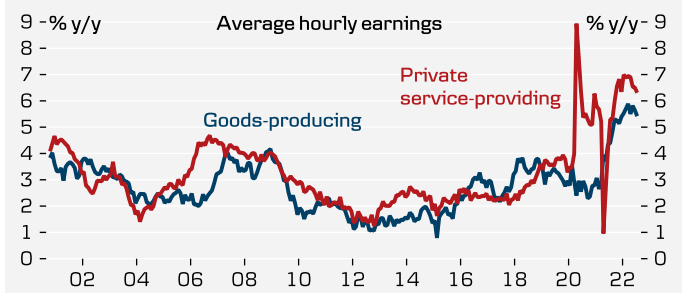
Wage growth and inflation

NFIB have peaked



Source: Macrobond Financial, NFIB

Rising wage pressure across sectors



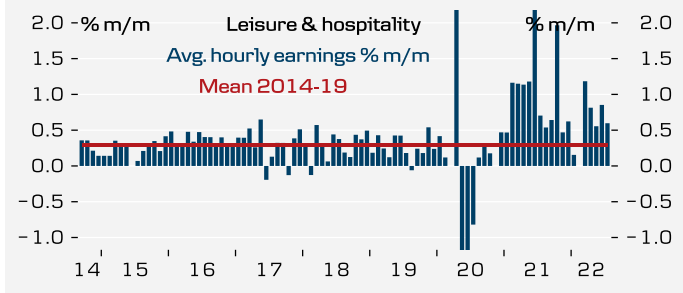
Source: Macrobond Financial, BLS

Rising wage pressure



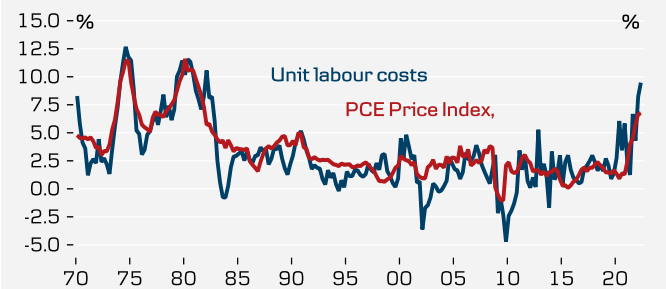
Source: BLS, Danske Bank Markets

Wage growth within "Leisure & Hospitality"



Source: BLS, Conference Board

Rising unit labor costs are increasing the pressure to continue hiking prices



Source: Macrobond Financial, BLS, Census, BEA

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Report completed: 10 August 2022, 11:45 CEST

Report first disseminated: 10 August 2022, 12:00 CEST