

# US Labour Market Monitor

## Easing wage sum growth suggests Fed is moving in the right direction

The December Jobs Report illustrated that the US labour market remains in healthy shape, but that wage inflation could be starting to ease. Importantly, wage sum growth appears to now moderate towards levels better consistent with Fed's inflation target.

Labour demand remains high despite majority of economic leading indicators now pointing towards a modest recession. JOLTs Job Openings remained at 10.46 million in November, which is still a level consistent with wages rising 4-5% annually. Furthermore, the elevated level of voluntary quits, and still high 'Jobs Plentiful' index from Conference board's consumer survey suggest, that workers' confidence in finding new jobs remains high.

While the sectors which have been the most vulnerable to the weakening growth outlook and rising interest rates, such as banking or technology, have reported increasing job cuts, the **total number of involuntary layoffs in the JOLTs survey remains low**. Similarly, jobless claims have not yet increased markedly.

**Leading labour market indicators do still point towards easing worker shortages.** NFIB's small business survey showed another clear drop in 'positions not able to fill right now' index, which is now only modestly above pre-covid levels. The Jobs Report suggested, that labour force participation increased by 439k, and consequently average hourly earnings growth eased to 0.3% m/m.

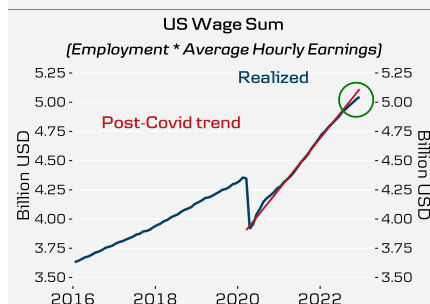
That said, **we remain cautious about expecting a quick recovery in labour supply**, as the monthly data has been volatile. The 724k monthly recovery in August was preceded by three months of stagnant growth. Furthermore, a large share of the decline in labour force participation is explained by early retirements, which are unlikely to reverse.

We have forecasted stagnant GDP growth for Q1 and a modest recession starting from Q2. While the December ISM services index pointed towards a sharp slowdown in service sector activity, we doubt the economy experienced an abrupt weakening as employment still grew by over 200 thousand, real wages likely recovered and financial conditions eased.

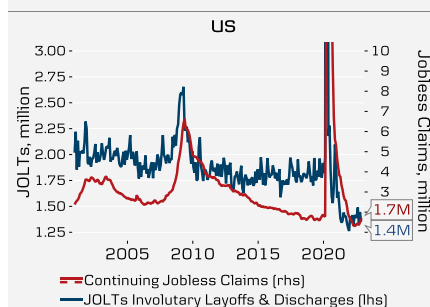
The upcoming recession is likely to be accompanied by further weakening in labour market conditions. The ongoing labour shortages vary across sectors, with especially leisure & hospitality still being hard hit (and accounting for a large share of the rise in average hourly earnings), but Fed naturally cannot concentrate the tightening efforts to only single sectors. We expect unemployment rate to gradually rise above 4% throughout 2023, **but the extent of the rise depends on the persistence of inflation.**

The easing wage sum growth reduces some of the tail risk of Fed having to hike its policy rate much beyond 5%, even if we still think markets Fed Funds pricing appears too optimistic. **The key risk is that the easing financial conditions drive an uptick in economic activity before sufficient slack has been built into the labour markets, which could mean that wage-driven inflation stabilizes at too high levels.** This is a key reason for why FOMC members have repeatedly warned against prematurely easing monetary policy especially, as the Chinese reopening poses renewed inflation risks for 2023. We think Fed is still far away from being confident about getting inflation down for good .

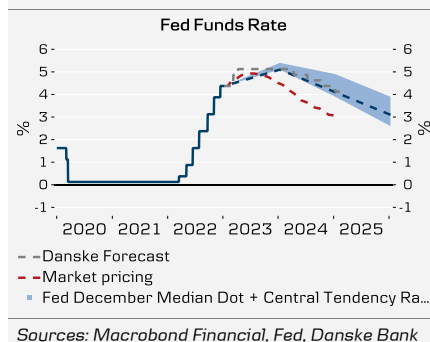
### Early signs of wage growth cooling



### Companies are still holding on to their employees



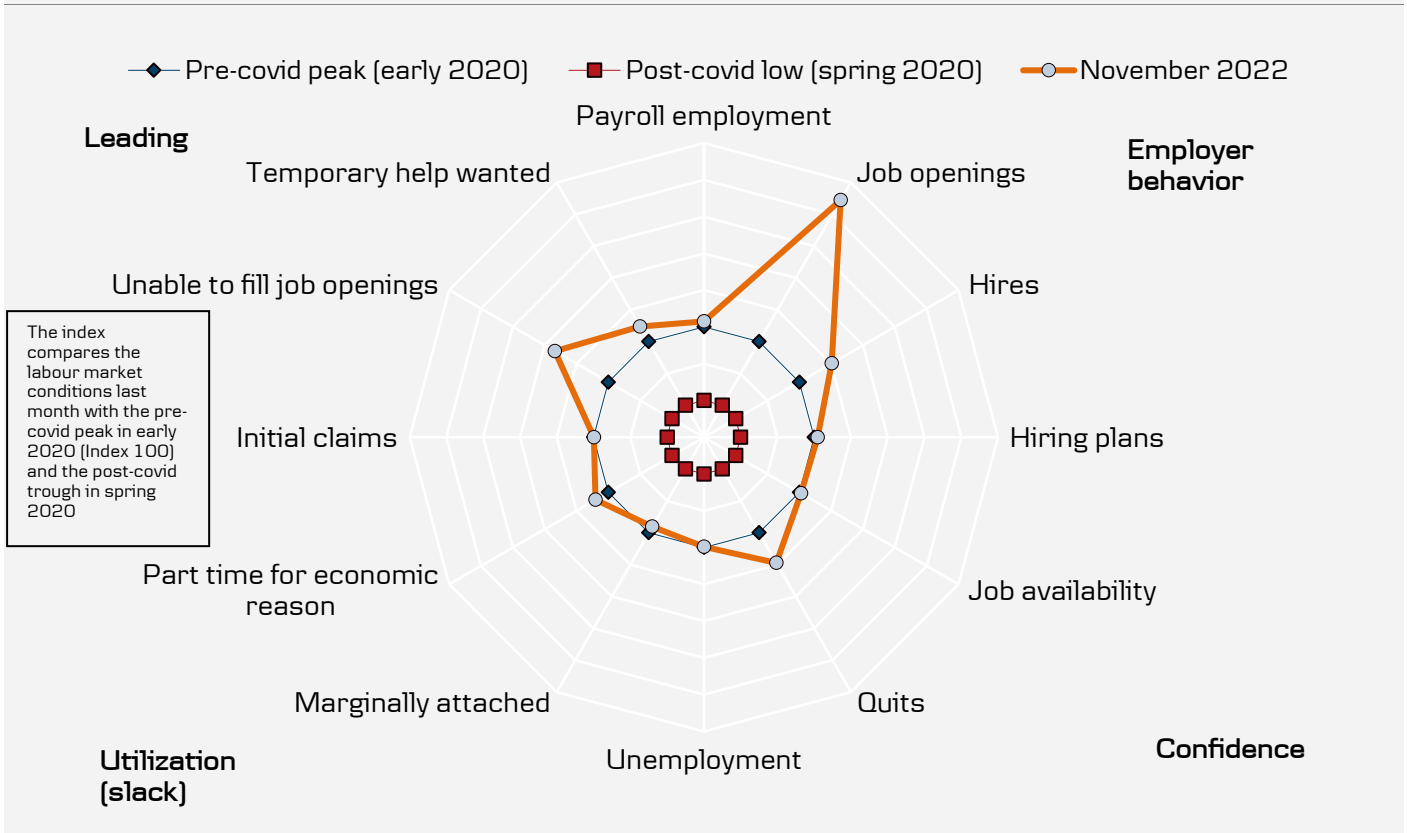
### We think markets are too optimistic pricing almost 200bp worth of cumulative cuts by end-2024



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### US labour market in one chart

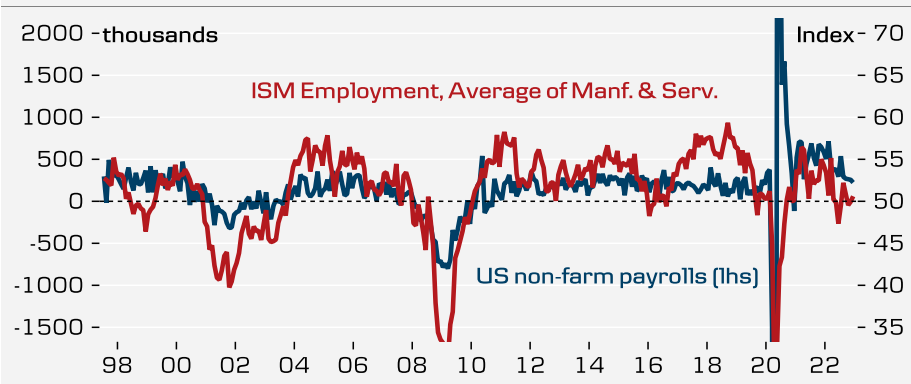
Labour market conditions have cooled since our last update, but especially job openings suggest that overall conditions still remain tight – outward moves indicate stronger labour market



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

### PMI employment vs nonfarm

PMI employment indices have broadly still remained at healthy levels despite the main indices now pointing towards a modest recession



Source: Macrobond Financial, ISM, BLS

## Labour demand

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



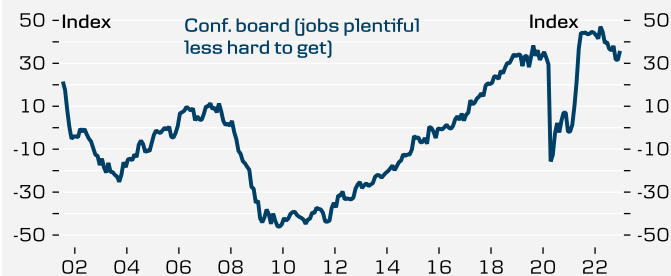
Source: Macrobond Financial, US Department of Labor, BLS

Labour demand has eased closer to pre-covid levels



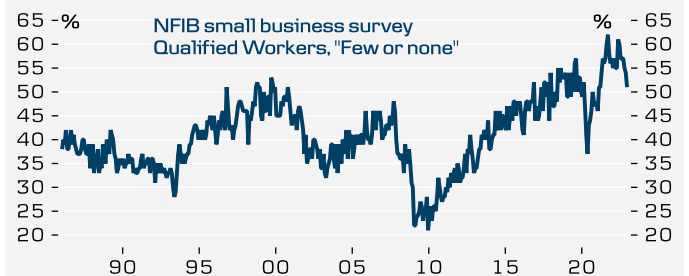
Source: Macrobond Financial, NFIB

Americans still confident in their job prospects



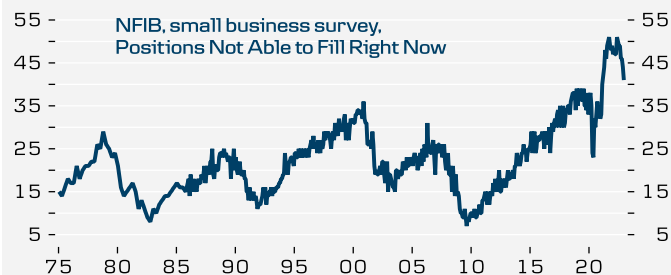
Source: Macrobond Financial, US Department of Labor, BLS

Fed will welcome signs of labour shortages easing



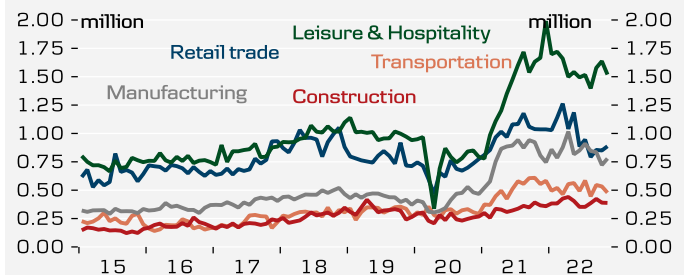
Source: Macrobond Financial, NFIB

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



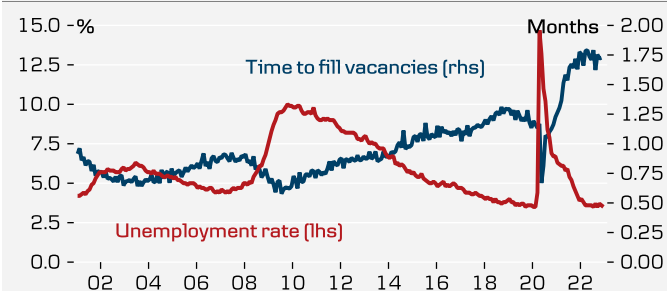
Source: Macrobond Financial, NFIB

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



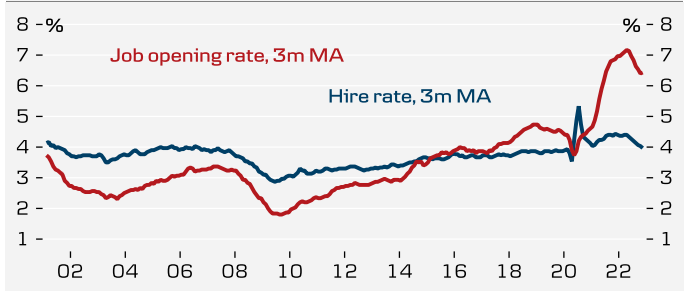
Sources: BLS, Macrobond Financial

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



Source: Macrobond Financial, BLS

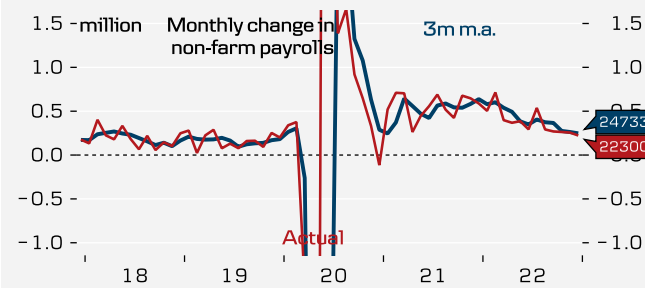
Some cooling in both job openings and hires



Source: Macrobond Financial, BLS

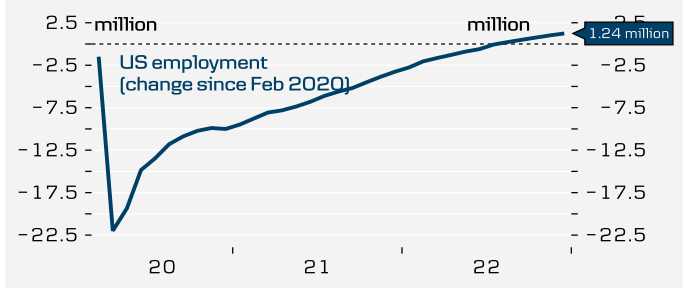
## Employment measures

### Employment growth easing, but still at healthy levels



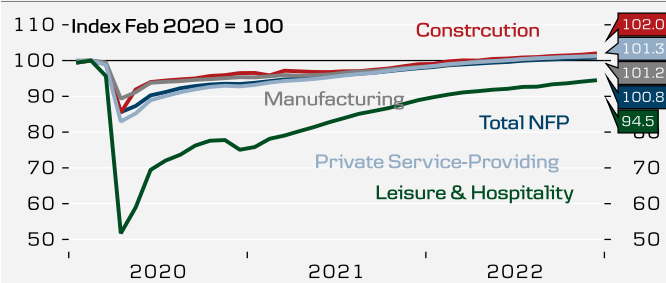
Source: Macrobond Financial, BLS

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



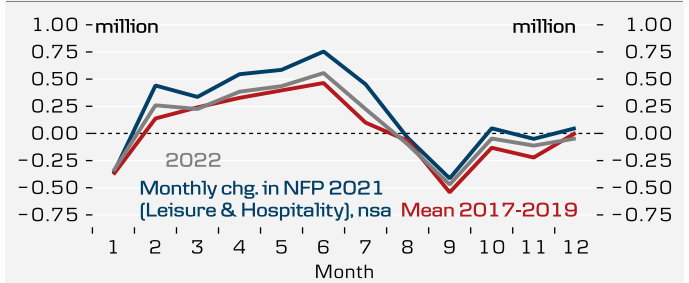
Source: Macrobond Financial, ADP

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



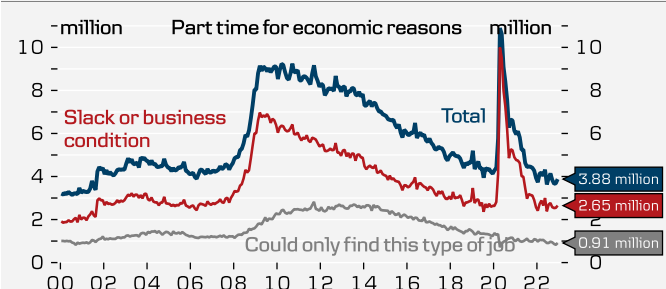
Source: Macrobond Financial, BLS

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



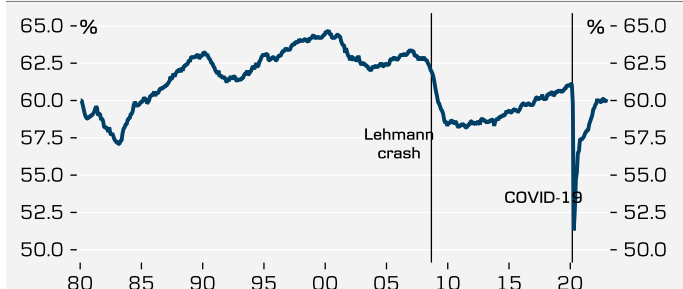
Source: Macrobond Financial, BLS

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



Source: Macrobond Financial, BLS

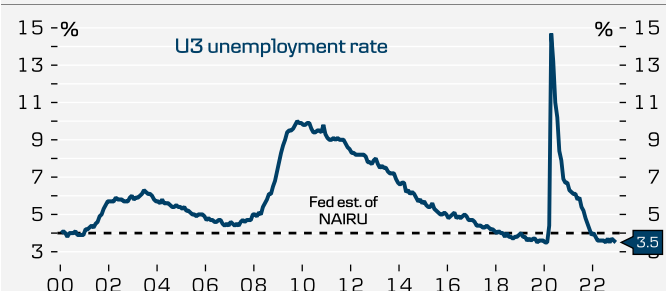
### Employment to population ratio still below previous levels



Source: Macrobond Financial, BLS

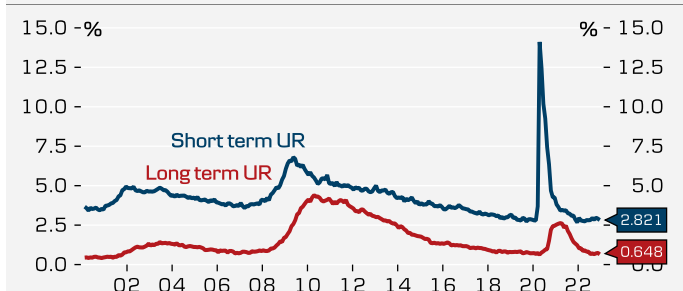
## Unemployment measures

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



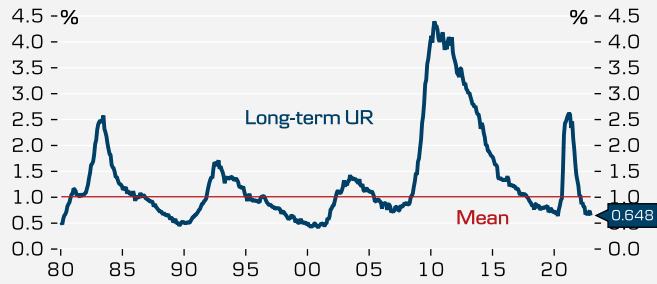
Source: Macrobond Financial, FOMC, BLS

### Long-term unemployment is little changed



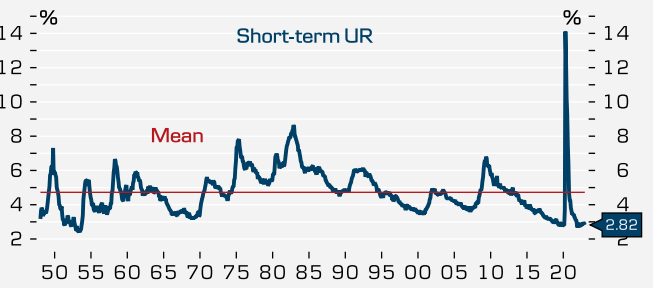
Source: Macrobond Financial, BLS

Long-term unemployment rate below the historical average



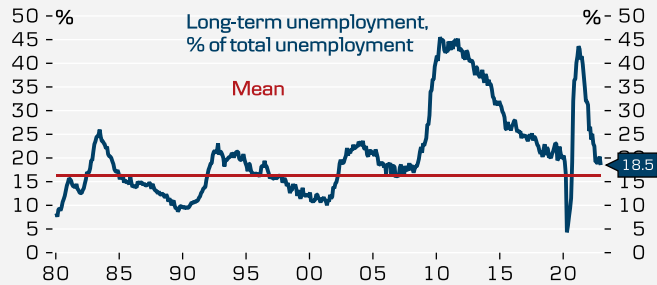
Source: Macrobond Financial, BLS

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



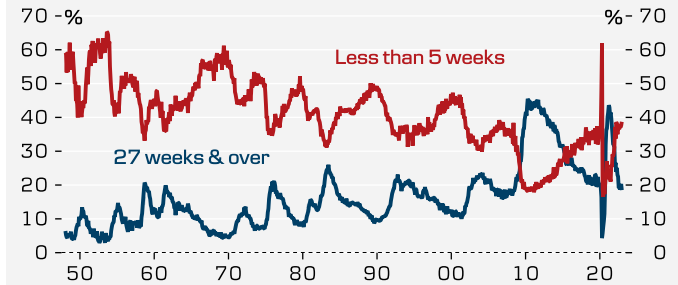
Source: Macrobond Financial, BLS

Long-term unemployment in % of total unemployment is falling



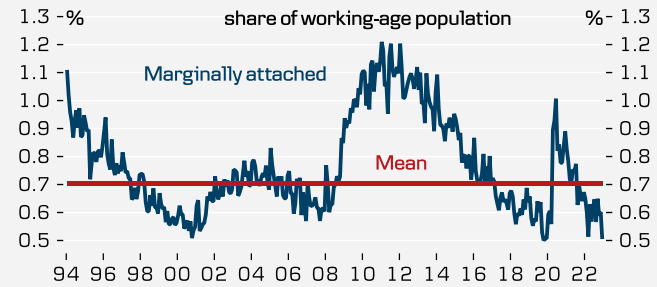
Source: Macrobond Financial, BLS

Unemployment - duration



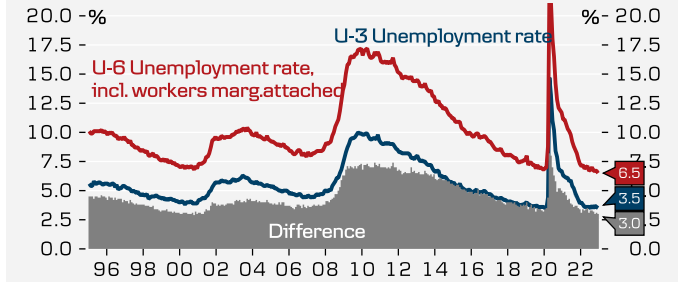
Source: Macrobond Financial, BLS

Marginally attached workers below average



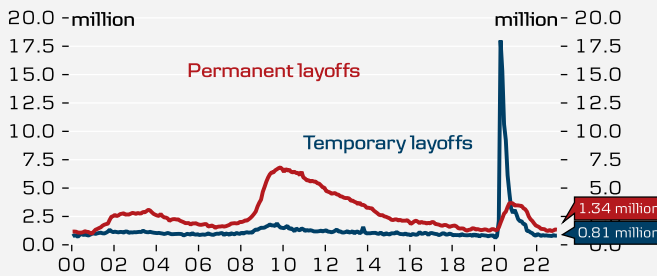
Source: Macrobond Financial, BLS

U6 unemployment is now below pre-COVID levels



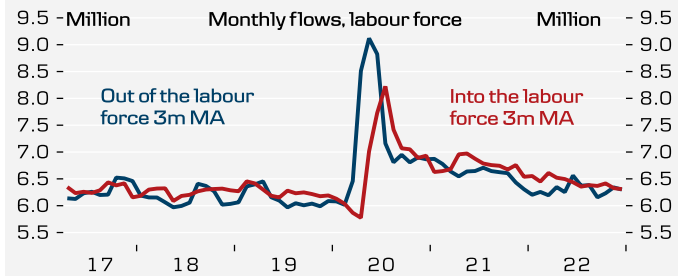
Source: Macrobond Financial, BLS

Permanent layoffs remain low



Source: Macrobond Financial, BLS

Labour market flows



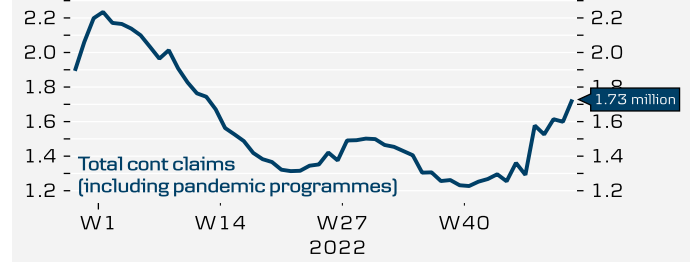
Source: Macrobond Financial, BLS

Only very modest rise in initial jobless claims



Source: Macrobond Financial, Department of Labor

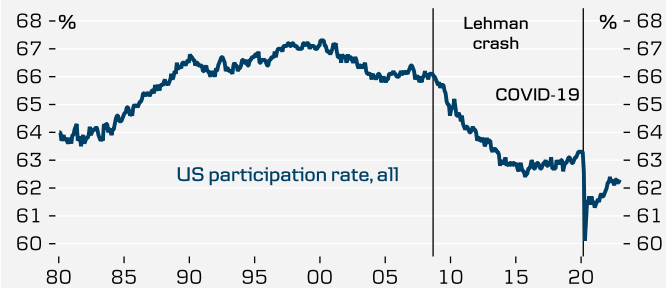
Total continuing claims have increased, but remain low in historical perspective



Source: Macrobond Financial, Department of Labor

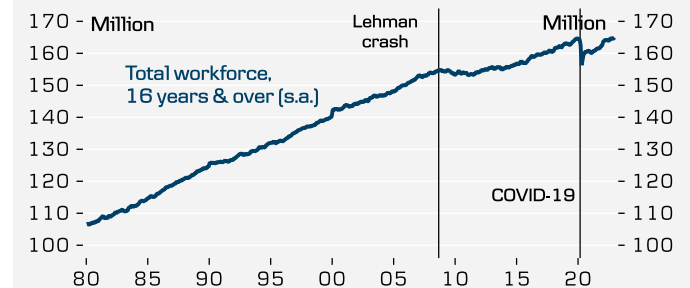
Participation

Participation rate declined again in September



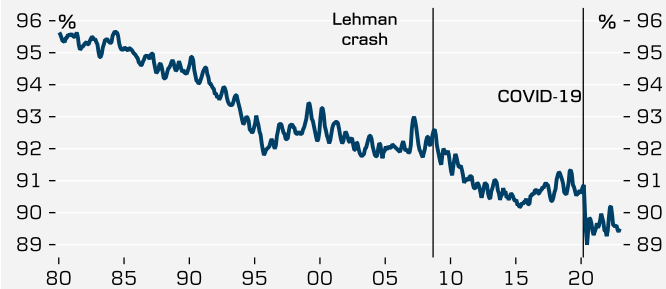
Source: Macrobond Financial, BLS

Labour force persistently below pre-covid path



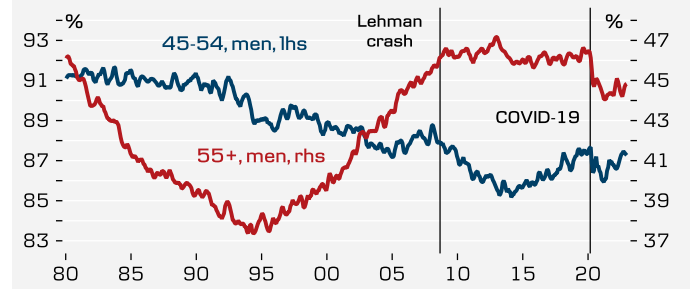
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

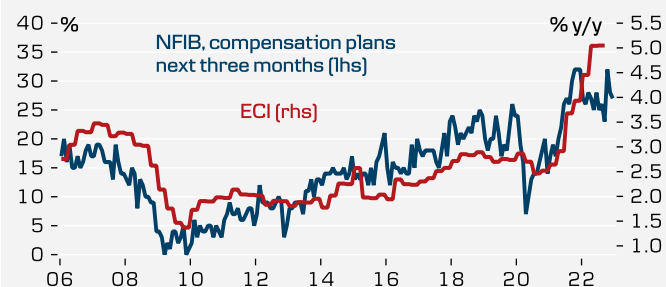
Early retirements have likely contributed to labour shortages



Source: Macrobond Financial, BLS

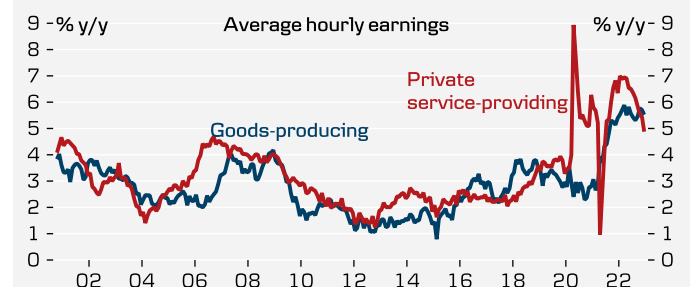
Wage growth and inflation

Employment costs continue to rise too fast for the Fed



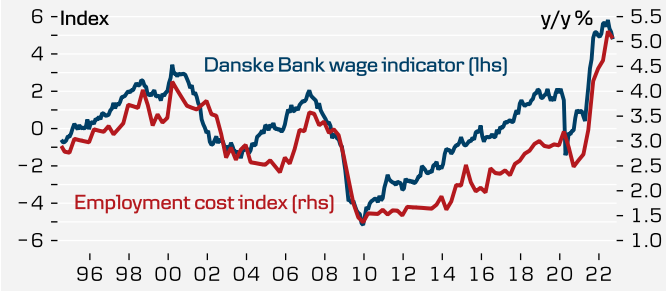
Source: Macrobond Financial, NFIB

Some signs of easing labour shortages in service-sector



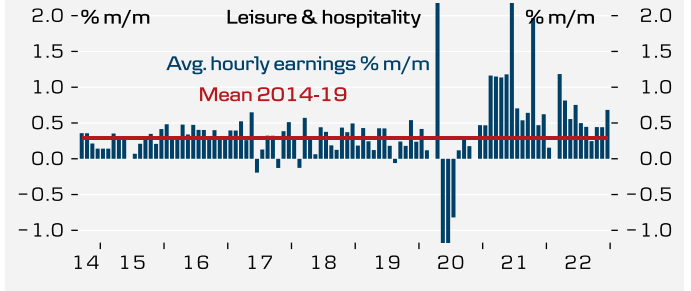
Source: Macrobond Financial, BLS

**Rising wage pressure**



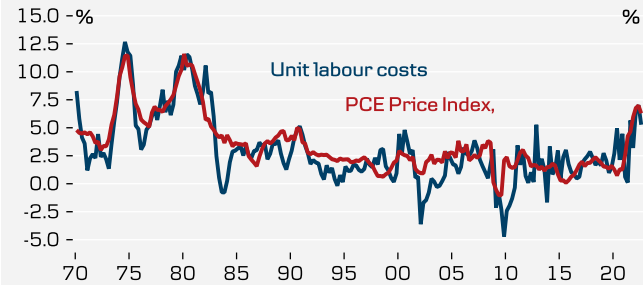
Source: BLS, Danske Bank Markets

**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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