Economics

WELLS FARGO

Economic Indicator — May 5, 2023

The Little Jobs Market That Could

Summary

Hiring continued to chug along in April, with nonfarm payrolls once again coming in well-above expectations with an increase of 253K. While hiring in February and March were revised downward by a combined 149K, the three-month average pace of gains remains respectable at 222K.

The ongoing strength of hiring is keeping the labor market extraordinarily tight even as the supply picture has improved in recent months. In April, the unemployment rate fell to 3.4% to match the lowest rate in 53 years, while average hourly earnings growth picked up, rising 0.5%. Including upward revisions to prior months' data, average hourly earnings are advancing at a three-month annualized rate of 4.2%, dashing prior signs that wage pressures were starting to cool in a meaningful way.

While the jobs market has remained incredibly resilient, clouds continue to gather. Hiring momentum has slowed, with deteriorating demand for workers pointing to more pronounced weakening ahead. We look for job growth to slow more meaningfully in the second half of the year and into 2024 as the lagged effect of monetary policy tightening bites.

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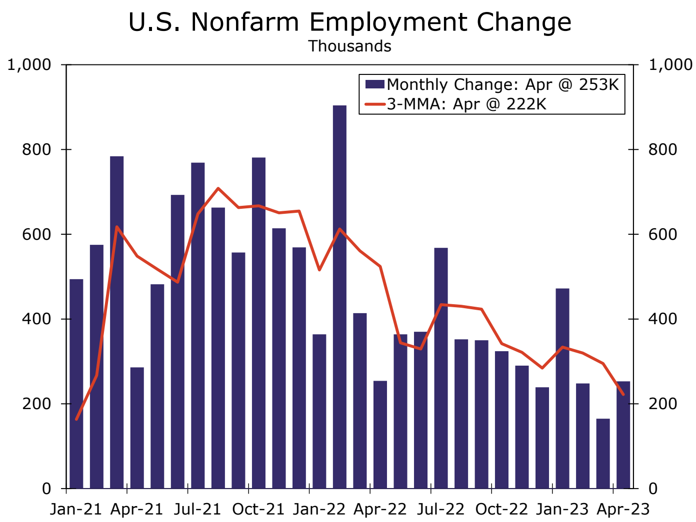
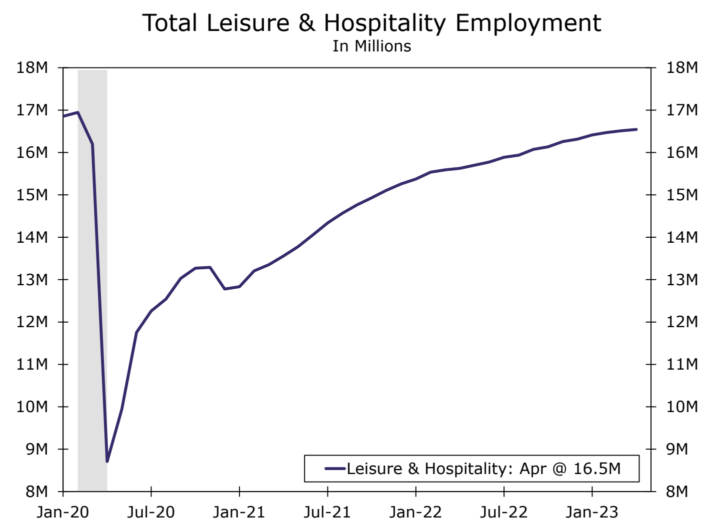
Hiring Growth Remains Solid in April

Nonfarm payrolls rose by 253K in April, 68K above the Bloomberg consensus forecast for a 185K gain. Downward revisions to the prior two months took some shine off of the reading as job growth over February and March was revised lower by a combined 149K jobs. Professional and business services employment posted a solid 43K increase in April, and healthcare payrolls rose a similarly strong 40K. Leisure and hospitality employment rose by 31K in April, a deceleration from an average of 73K new jobs per month over the past six months. Leisure and hospitality employment remains roughly 400K below its February 2020 level and probably still has some room to run as staffing in that sector continues its long recover from the pandemic. Despite the ongoing challenges in the factory sector, manufacturing employment rose by 11K, more than reversing the 8K decline in March. Similarly, construction employment rose 15K in the month. The employment diffusion index, which is a measure of the breadth of job across industries, was 57.4 in April. This is off the highs but roughly in line with the average seen in 2019.



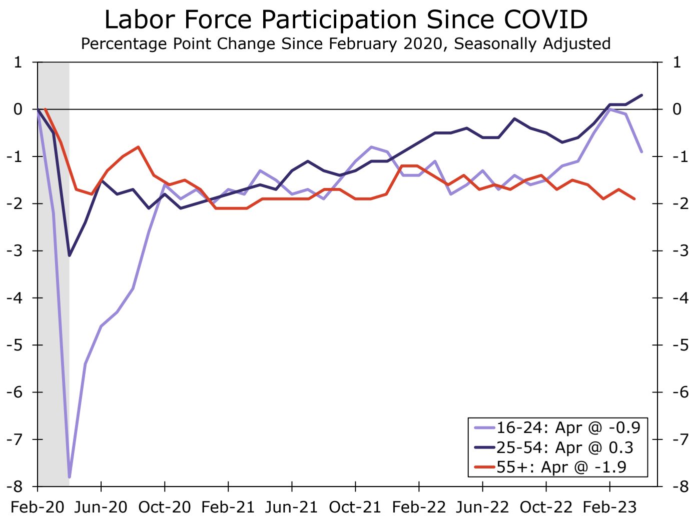
Source: U.S. Department of Labor and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

Employment growth as measured by the household survey was less robust, advancing 139K, but this gain paired with a 43K decline in the labor force was enough to push the unemployment rate back down to 3.4% to match its 53-year low. After an impressive four-month run of increases, the labor force participation rate remained flat at 62.6%. We see some scope for participation to continue its upward trend in the months ahead. Labor force participation tends to lag the hiring cycle, and the current environment of dwindling savings and still-high inflation are also likely to push more workers back into the jobs market. But the rebound remains uneven, with participation among prime age (25-54) workers having fully recovered while participation among older workers is barely better than the recent lows of 2020, in a sign not all workers will be easily drawn back into the labor force.

Average hourly earnings (AHE) growth advanced 0.5% in April. Over the past three months, average hourly earnings have risen at a 4.2% annualized clip, an acceleration relative to last month. Average hourly earnings had been suspiciously soft in Q1 compared to other labor cost data such as the Employment Cost Index or the Atlanta Fed's Wage growth tracker. The pickup in April brings average hourly earnings growth more in line with these other data and signal that labor cost growth is slowing, but gradually rather than rapidly.



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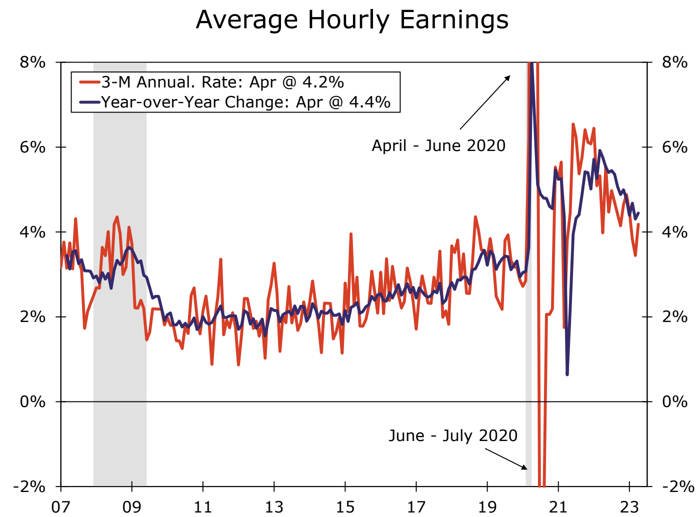

Source: U.S. Department of Labor and Wells Fargo Economics

We now have one-third of the employment reports for 2023 covering January through April. Through the month-to-month noise, the data have shown a labor market that is impressively resilient. Nonfarm payrolls have grown at an average of 285K per month this year, and the labor force participation rate has increased 0.3 ppts since year-end 2022. Average hourly earnings growth has slowed from a 4.9% three month annualized rate in December to 4.2% in April. Even some of the most challenged sectors such as manufacturing and construction have continued to add jobs, albeit at a slower pace.

While jobs growth carries on, clouds continue to gather over the horizon. With each passing month, the tailwinds from efforts to restaff post-lockdowns are getting weaker, while the hiring headwinds from tighter monetary policy are getting stronger. The jobs market remains on solid ground, but cracks are emerging. Jobless claims are ticking higher, job openings are rapidly declining, and temporary help employment fell once again in April, with the latter being a useful indicator of labor demand growth on the margin. We look for job growth to slow more meaningfully in the second half of the year and into 2024 as the lagged effect of monetary policy tightening bites.

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