Economics

Economic Indicator — October 29, 2024

JOLTS: Some Cold Water on the Last Jobs Report

Summary

The September employment report a few weeks back shook up the recent narrative on the labor market, as it showed robust job growth, steady unemployment and smouldering wage growth. The latest release of September labor market data, however, suggests that employment conditions continue to soften. Job openings fell by 418K in September from a downwardly revised reading in August. While the number of job openings per unemployed, at 1.1, is consistent with the labor market remaining solid in an absolute sense, employers and employees are still in a wait-and-see mode. The share of workers quitting their job fell to a four-year low in September, and while despite ticking up last month, layoffs remain near historic lows.

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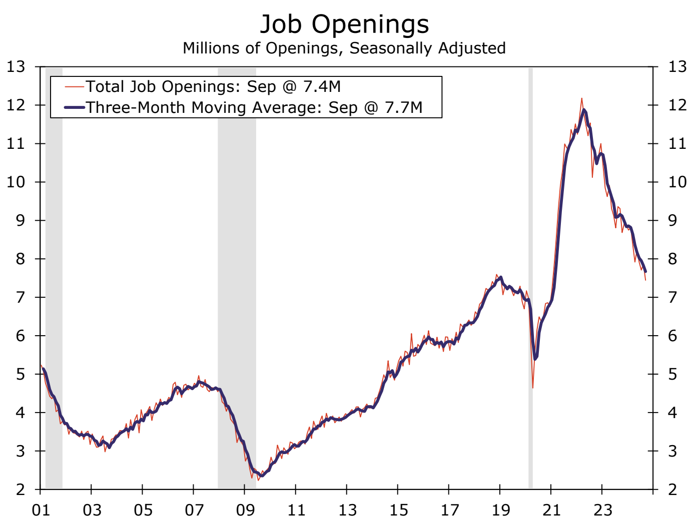
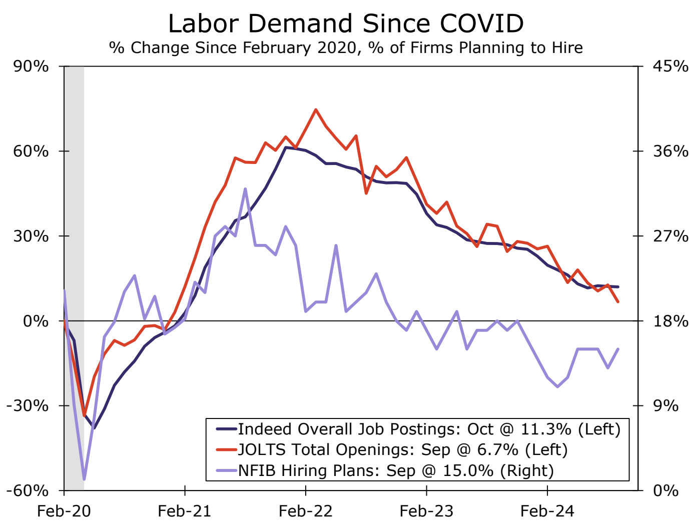


Source: U.S. Department of Labor and Wells Fargo Economics

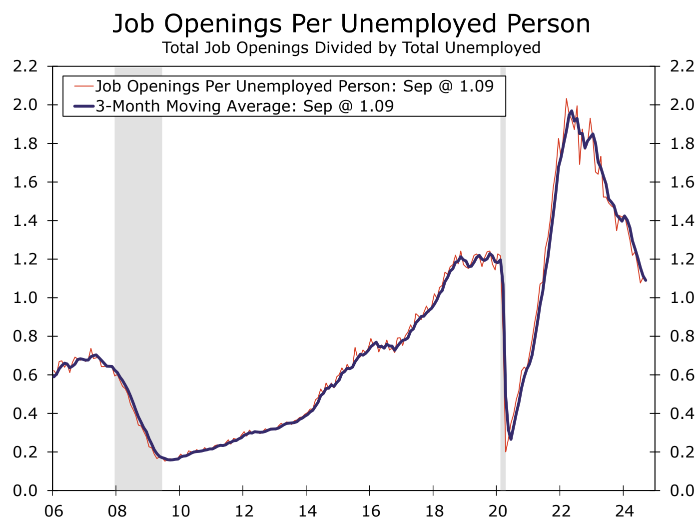
No Stabilization in the Jobs Market Yet

Total job openings dropped to 7.44 million on the last business day of September, a decline of more than 400K from August's downwardly-revised reading of 7.86 million. The headline miss and negative revision to August run somewhat contrary to the latest readings on small business hiring plans and overall Indeed job postings, which suggest that the pullback in labor demand is decelerating (chart). However, the preponderance of the data has yet to persuade us that labor demand has stabilized. *New* job postings from Indeed have slowed sharply thus far in October and are currently just 8.7% higher than in February 2020—a stark drop-off from this time last year when the level of new postings was 44% higher than pre-pandemic. In September, only 34% of businesses reported job openings they could not fill. This was a six point drop from August and the lowest reading since January 2021. The past month's drop in job openings brings the vacancy rate to its lowest level since 2020 in another sign labor conditions have normalized after the post-pandemic hiring frenzy.

The number of job openings per unemployed person, an indicator cited by monetary policymakers when assessing labor market supply and demand imbalances, was unchanged in September at 1.1 (chart). Presently, the ratio signals a still-strong labor market with more open positions than unemployed workers even as the measure has nearly halved from its recent peak. Yet, its slip is reflected in workers having become less confident in the prospects of finding work. Separately released data on consumer confidence showed the share of consumers who report jobs as "plentiful" less the share reporting jobs as "hard to get" having increased in October, but nevertheless down more than 10 points from the first few months of this year.



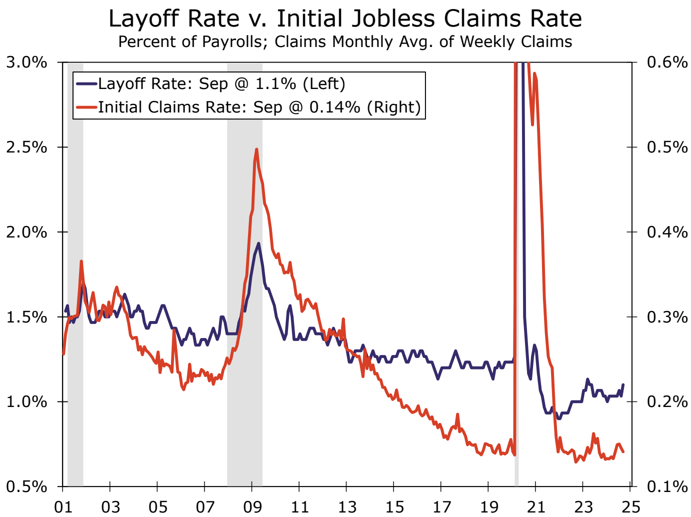
Source: U.S. Department of Labor, Indeed Inc., NFIB and Wells Fargo Economics



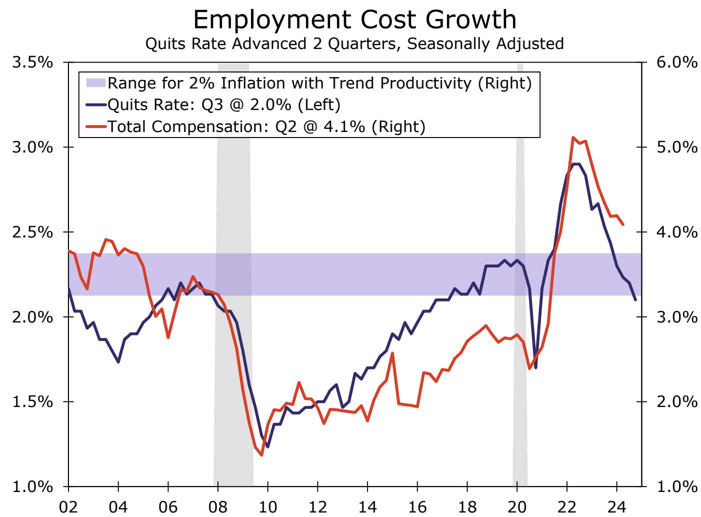
Source: U.S. Department of Labor and Wells Fargo Economics

Decreased confidence in alternatives for workers and softer hiring plans from firms has resulted in a jobs market that is increasingly in stasis. The quit rate fell to 1.9% in September—well below the 2.3% rate that prevailed in 2019. The gross hiring rate improved slightly throughout September but still remains stuck near 2013–2014 levels. In this largely static labor market, subdued *involuntary* separations (i.e., layoffs and other discharges) have been a bright spot. The layoff & discharge rate ticked up to 1.2% in September, although the increase was driven by separations in durable goods manufacturing, likely reflecting spillovers from the ongoing strike at Boeing. Even so, layoffs remain historically subdued on trend and still sit notably below their pre-pandemic level (chart). Overall, that separations remain historically low is playing a large role in keeping the labor market from non-linear deterioration.

With retention significantly improved over the past year and demand for new workers ebbing, the labor market no longer poses a threat to the price stability side of the Fed's dual mandate (chart). We expect to see growth in employment costs (Q3 data released Thursday) continue its downward trend in the quarters ahead.



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



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

On net, the JOLTS report demonstrates that despite solid payroll gains in September, demand for labor continues to moderate. For the FOMC, these data may take on slightly elevated importance for its upcoming November 7 meeting. Although the Committee will receive one more employment report during the blackout period, distortions caused by the impacts of Hurricanes Helene and Milton and a large strike at Boeing lead us to expect the Committee to put much less weight than usual on the jobs report. Instead, we see monetary policymakers as focusing on the broader trend of the jobs market having cooled substantially over the past year, and while not weak in an absolute sense, by many accounts is somewhat softer than prior to the pandemic.

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