Economic Indicator — July 2, 2024

May JOLTS: Froth Skimmed Off

Summary

May's JOLTS report showed a labor market that in many ways looks like its pre-pandemic self. Job openings partially rebounded from the three-year low hit in April, but the number of job openings per unemployed worker remained unchanged at 1.22, essentially back in line with its 2019 average. Turnover, meanwhile, remains depressed. Gross hiring stayed near the lowest share of total employment since 2015, and businesses are reluctant to cut ties with existing workers as indicated by the layoff & discharge rate remaining near a historic low at 1.0%. The share of workers quitting their job also remains below the rate registered prior to the pandemic, which, along with the downward trend in demand for new workers, should continue to temper wage growth.

Overall, the JOLTS data suggest that the jobs market continues to move toward its pre-pandemic state, but at a pace that warrants caution more than alarm. The resumption of inflation's downward trend in recent price data along with the reduction in inflation pressures stemming from the cooler jobs market leads us to continue to look for the Fed to reduce the fed funds target range as early as its September 18 meeting.

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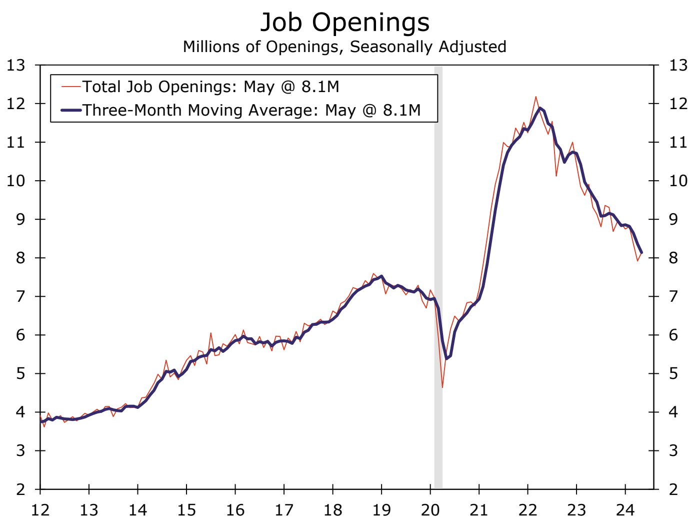


Source: U.S. Department of Labor and Wells Fargo Economics

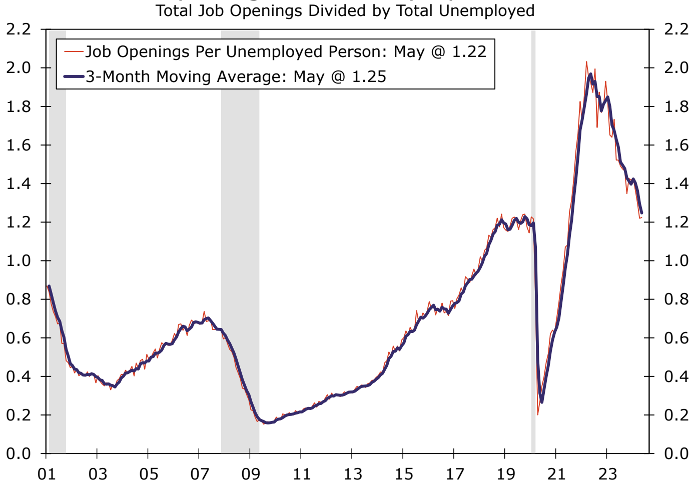
JOLTS Data Trend Closer to Pre-Pandemic Normal

Although closely-watched nonfarm payroll gains have remained robust, many other measures of the labor market have softened significantly from the froth of 2021-2022 and have indicated the jobs market is close to its pre-pandemic state. Among them is the latest data on job openings and worker turnover. Job openings partially rebounded to 8.14 million in May but are down 12.6% from a year-ago and have fallen by more than four million since their peak in 2022 (chart). May's slight bounce back in openings from a three-year low in April leaves the downward trend in place, consistent with the message from more stable and timely job postings data from Indeed. The ratio of job openings per unemployed person, a frequently cited metric by Fed officials, was unchanged at 1.22 in May—just 0.03 above its 2019 average (chart).

Nevertheless, even as total job openings have steadily declined, certain industries are still experiencing heightened labor demand. The opening rates in healthcare (6.9%) and government (4.0%), in particular, are elevated relative to both the industries' pre-pandemic baselines and to other industries (chart). While numerous tailwinds to hiring in these industries persist, as we highlighted in a recent report, they are beginning to dissipate. This makes it necessary for hiring in other industries to strengthen to maintain the recent rate of payroll growth, a task that looks difficult with demand having already, or nearly, returned to 2019 levels.

Job Openings Per Unemployed Person

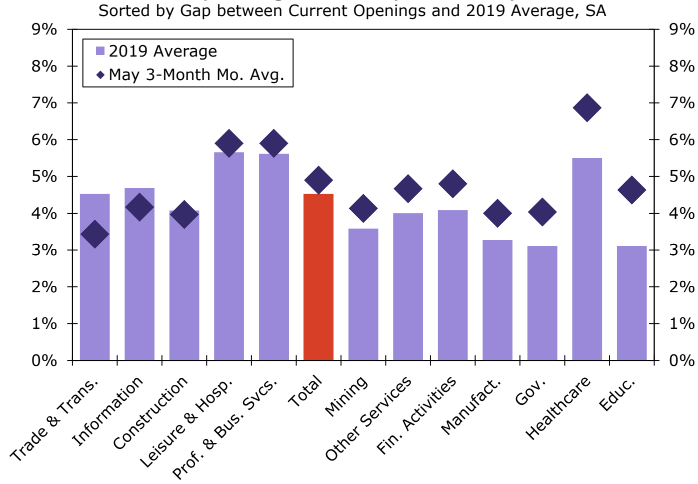
Total Job Openings Divided by Total Unemployed



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

Opening Rates by Industry

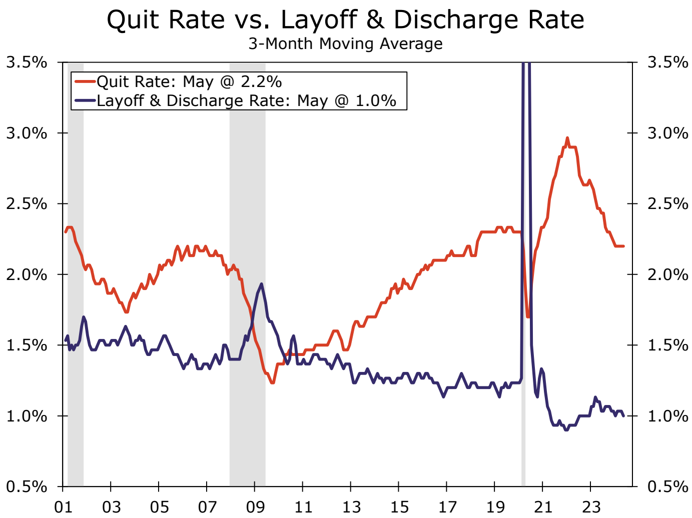
Sorted by Gap between Current Openings and 2019 Average, SA



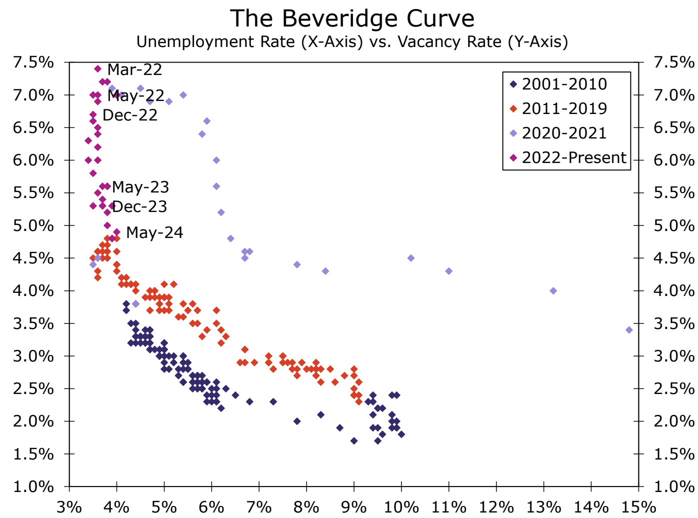
Source: U.S. Department of Labor and Wells Fargo Economics

In addition to the downward trend in job openings, the JOLTS data show turnover in the labor market remains depressed relative to pre-pandemic levels. The hiring rate rebounded a tick to 3.6%, but on a three-month average basis it remains at its lowest level since 2015 (excluding the spring of 2020). Fewer workers quitting their jobs have reduced the need to backfill positions and contributed to the decline in both job openings and gross hiring; the quit rate was unchanged at 2.2% in May for a seventh straight month and remains below the rate that prevailed over 2018-2019. With more workers choosing to stay put in their current role and overall hiring needs diminishing, we expect to see wage growth slow further in the months ahead.

The depressed hiring rate will make it all the more important for layoffs to keep quiet in coming months in order to keep net hiring comfortably in the black. At present, turnover remains subdued when it comes to involuntary departures, signaling that while demand for new labor is ebbing, firms are reluctant to part with their current workers. The layoff & discharge rate remained unchanged at 1.0% in May—still historically low (chart).



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



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

Thus far throughout the monetary policy tightening cycle initiated in 2022, normalization in the labor market has largely occurred via decreases in labor demand/excess job vacancies without any material increases to the unemployment rate. This is apparent in the Beveridge Curve (chart), which plots the relationship between the unemployment rate and the rate of vacant job openings. The tight labor market of the post-pandemic period can be seen in the upper left-hand corner, where a small pool of unemployed workers competed for a relatively large number of open positions. For the past year and a half, the labor market has moved down along the steep portion of the Beveridge Curve, but as Mary Daly—who is a voter on the FOMC this year—recently noted, "we are getting very near the flatter portion of the Beveridge curve. This means that future labor market slowing could translate into higher unemployment, as firms need to adjust not just vacancies but actual jobs." Given the cooling evident over the past year in the labor market, we see further labor market weakening as becoming more worrisome and less welcomed by the Fed.

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