

23 May 2024

# US Labour Market Monitor

## Slack continues to build

**Recent batch of labour market data has primarily yielded cooling signals.** Nonfarm payrolls (NFP) came in lower than expected at 175k (cons: 243k), while February and March figures were revised down by a combined 22k. Similarly to the pattern seen in recent months, job gains were primarily attributable to the services sector – especially in education and health care. The sharpest slowdown was seen in public sector jobs growth.

As such, the ADP private sector jobs report was actually stronger than expected at 192k. While jobs growth continues at a healthy pace, it has also been complemented with further increase in labour supply. The participation rate for prime-age labour force (25-54y) and 20-24y rose further in April, which pushed the unemployment rate slightly higher to 3.9%. In other words, **while labour markets are growing, the overall conditions are still getting gradually looser.**

March JOLTs job openings fell short of market's expectations, printing at 8.49m. **Hence, the ratio of unfilled vacancies per unemployed edged down to 1.32, the lowest level since the pandemic-shock.** In tandem with the hiring rate edging down to 3.5%, this clearly indicates that labour markets are becoming more balanced. NFIB's small business survey confirmed that firms' hiring ambitions have continued to decline, but at the same time, we see no signs of clear increases in layoffs. In the JOLTs data, the number of total separations decreased by 339k and involuntary layoffs by 155k.

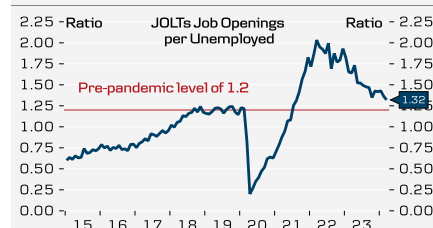
Although average weekly hours worked fell to 34.3 in March (prior: 34.4), average hourly earnings growth slowed down to 0.2% m/m and 3.9% y/y. **This marks the first yearly change below 4% since June.** Alternative wage indicators – for instance the Atlanta Fed and the Indeed Hiring Lab, also support the notion of slowing momentum.

In contrast to the more benign wage development, Q1 non-farm unit labour costs surprised to the upside at 4.7% q/q AR SA (cons: 3.3%). The hotter-than-expected print stems from productivity growth slowing sharply. Faster productivity growth could allow firms to pay higher wages without much upside pressure on costs, but recent Fed speakers have made it clear that the central bank does not assume that 2023's unusually strong development will continue. If productivity growth stabilizes close to pre-pandemic average levels, annual wage growth around 3% would be consistent with 2% inflation.

Leading indicators have remained consistent with weaker jobs growth. May Flash PMIs showed modestly stronger employment prospects for services after very weak April, but generally both PMI and ISM indicators remain below the 'neutral' level of 50 across service and manufacturing sectors.

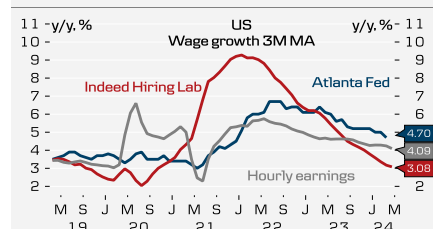
**Overall, labour markets continue their cooling trend,** with some slack slowly materializing amid the continued growth in labour supply. Accordingly, the momentum in wage growth is slowing. The Fed has communicated that sudden deterioration in labour market conditions could warrant earlier easing of the policy stance, but low number of layoffs sends no such signals. **We continue to see the latest data consistent with gradual rate cuts, which we expect to start in September this year.**

### Job openings per unemployed approaching pre-pandemic levels



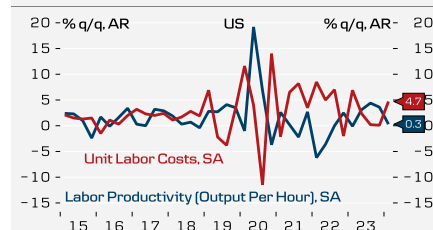
Sources: Macrobond Financial, U. S. Bureau of Labor Statistics (BLS)

### Declining momentum in wage growth



Sources: Macrobond Financial, BLS, Indeed Hiring Lab, Federal Reserve Bank of Atlanta

### Weak productivity fuels higher unit labour costs



Sources: Macrobond Financial, BLS

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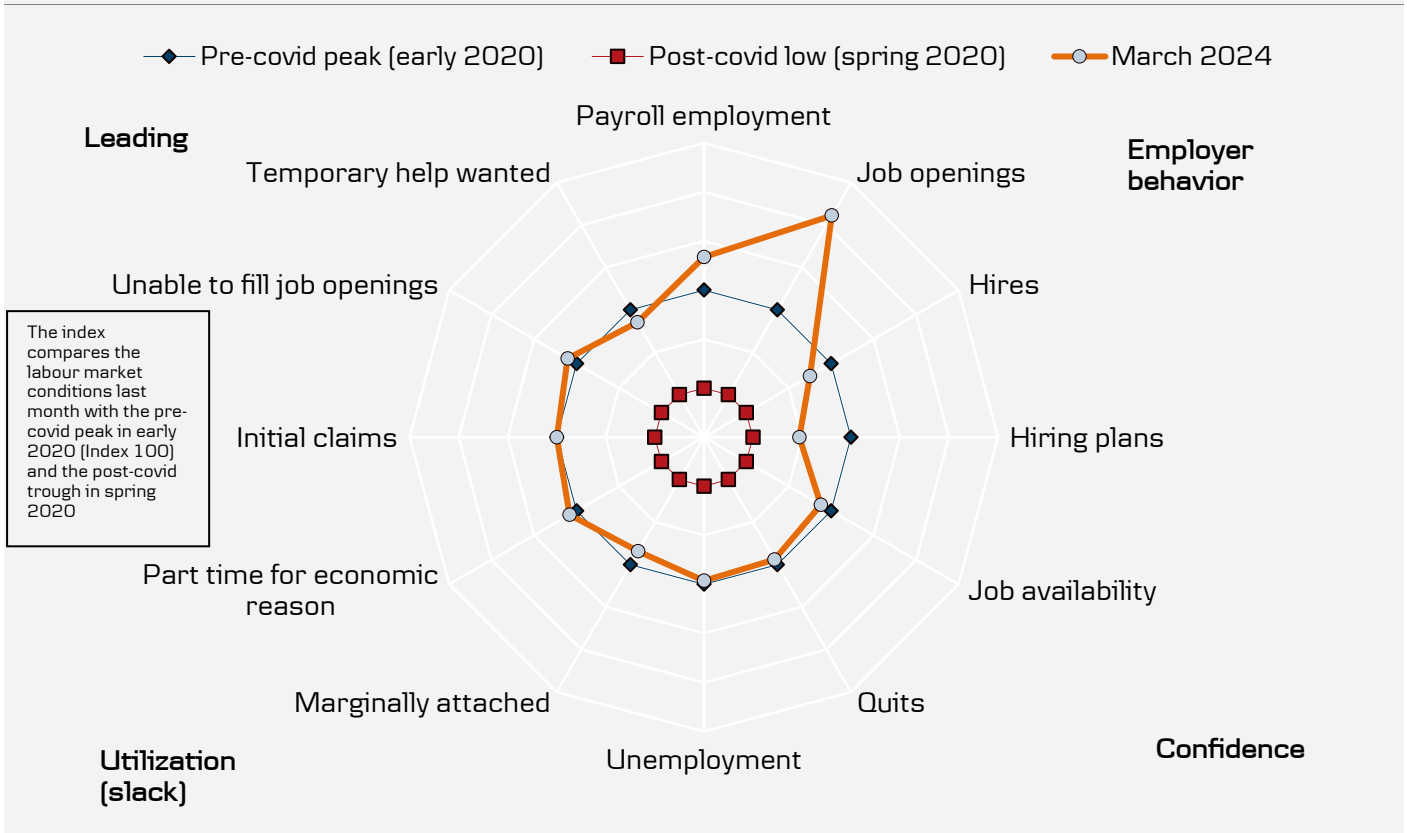
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### US labour market in one chart

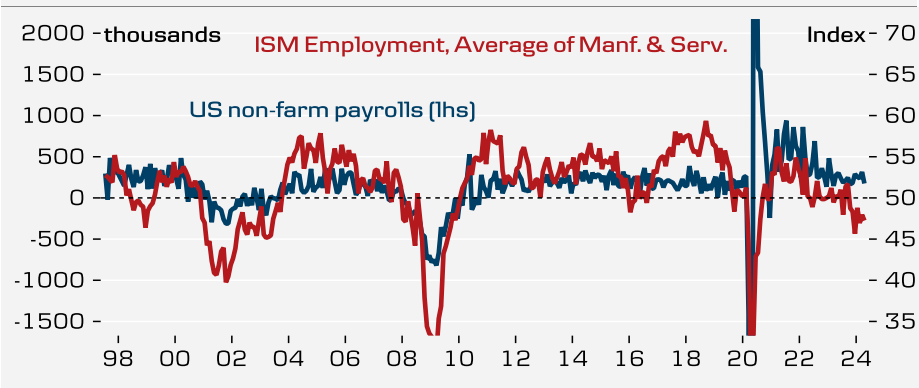
Labour market conditions vary across sectors and employers are holding on to their workers. As such, labour shortages still persist on some sectors even if hiring overall has already cooled down clearly



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

### ISM employment vs nonfarm

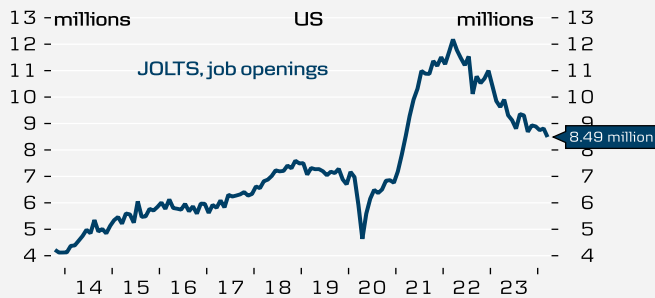
ISM employment indices point towards some easing in nonfarm payrolls growth



Source: Macrobond Financial, ISM, BLS

## Labour demand

### Job openings ticked lower



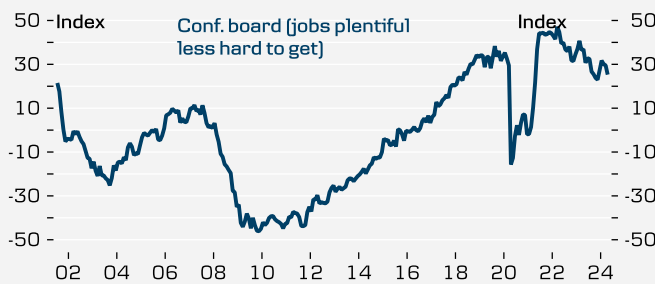
Source: Macrobond Financial, US Department of Labor, BLS

### Hiring plans creeping lower



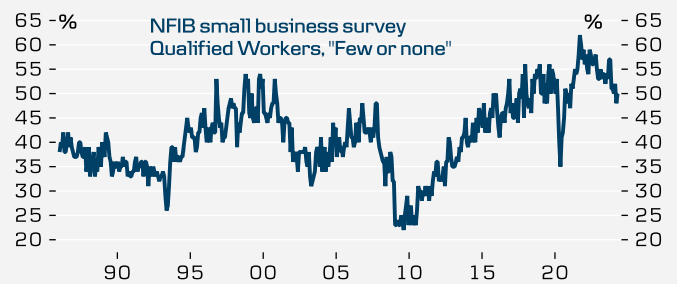
Source: Macrobond Financial, NFIB

### Americans still relatively confident in their job prospects



Source: Macrobond Financial, US Department of Labor, BLS

### Labour shortages have not yet fully dissipated



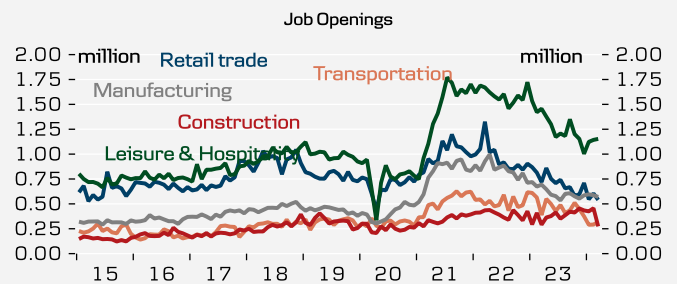
Source: Macrobond Financial, NFIB

### Difficulties is down from its historically tight starting point



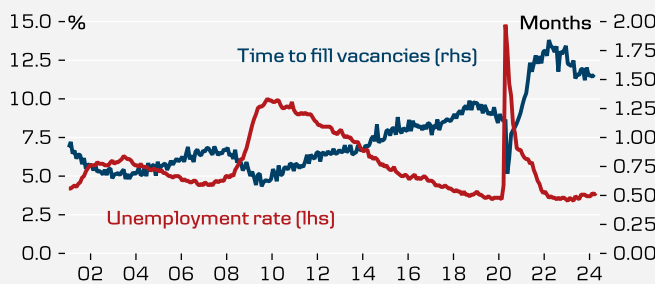
Source: Macrobond Financial, NFIB

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



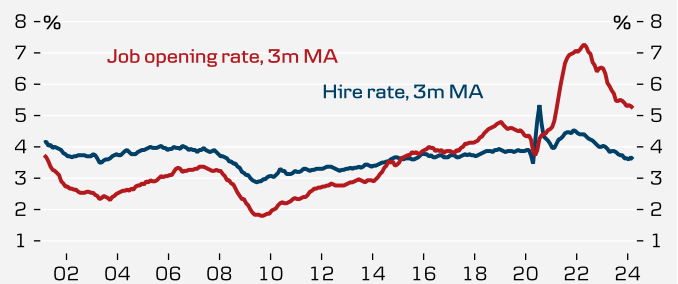
Sources: BLS, Macrobond Financial

### Unemployment rate remains very low



Source: Macrobond Financial, BLS

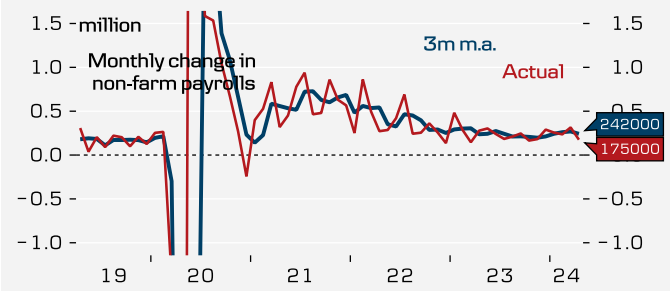
### Some cooling in both job openings and hires



Source: Macrobond Financial, BLS

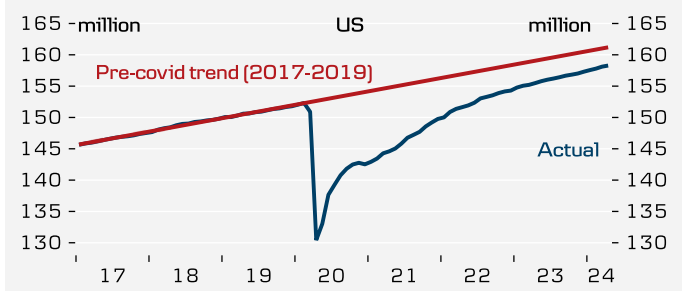
## Employment measures

### Employment growth at strong levels



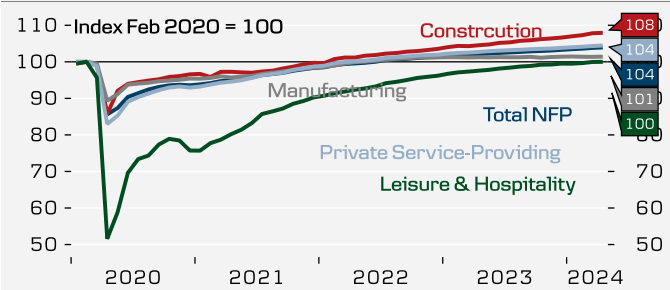
Source: Macrobond Financial, BLS

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



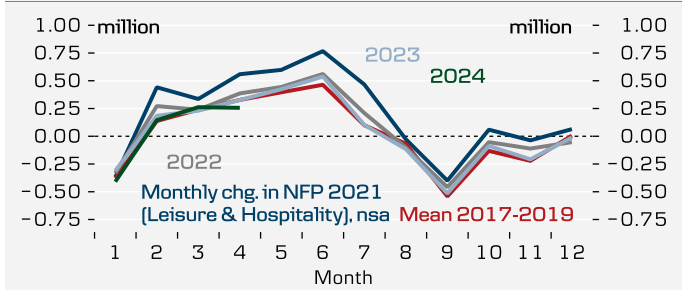
Source: Macrobond Financial, ADP

### "Leisure & Hospitality" sector at the February 2020 employment level



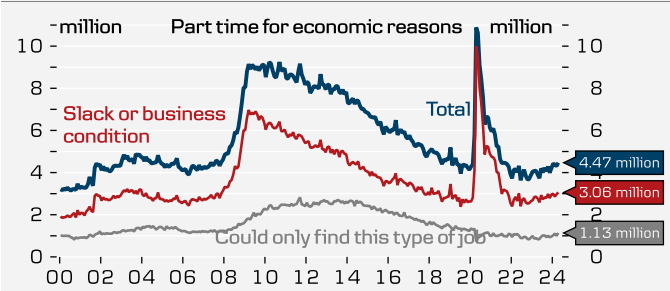
Source: Macrobond Financial, BLS

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



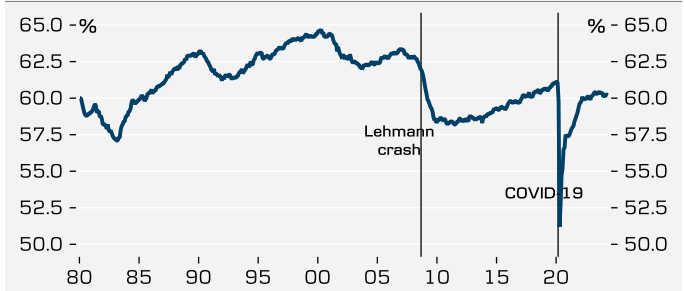
Source: Macrobond Financial, BLS

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



Source: Macrobond Financial, BLS

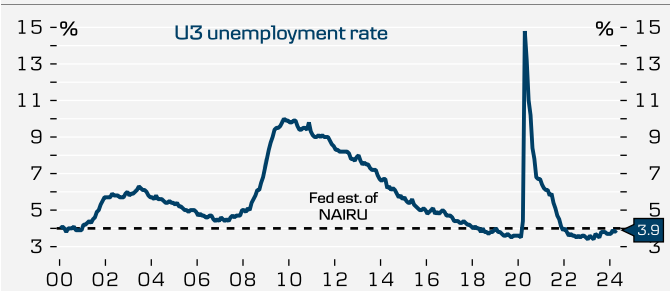
### Employment to population ratio still below previous levels



Source: Macrobond Financial, BLS

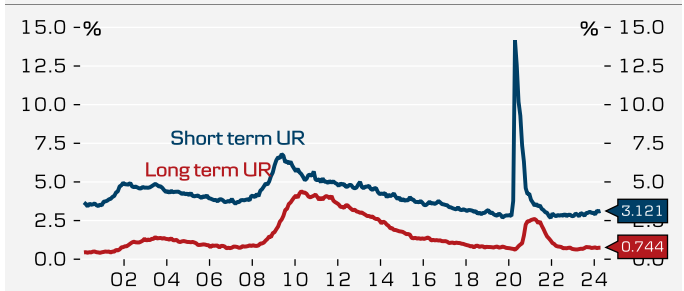
## Unemployment measures

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



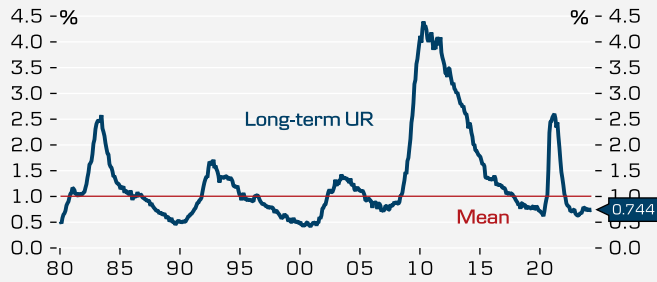
Source: Macrobond Financial, FOMC, BLS

### Long-term unemployment is little changed



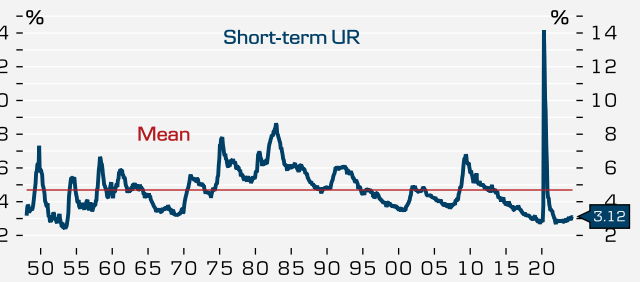
Source: Macrobond Financial, BLS

Long-term unemployment rate below the historical average



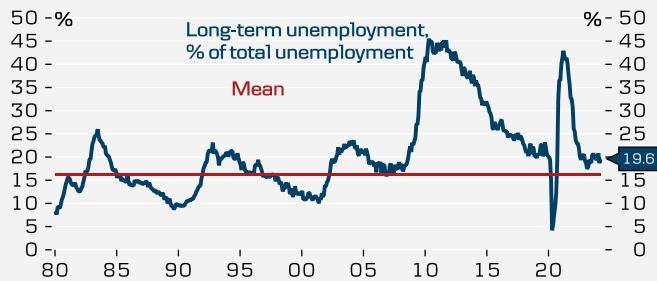
Source: Macrobond Financial, BLS

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



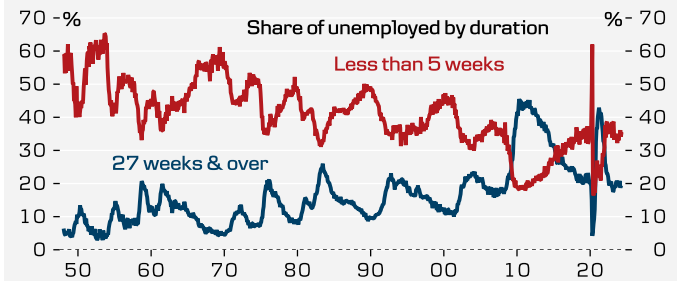
Source: Macrobond Financial, BLS

Long-term unemployment in % of total unemployment remains low



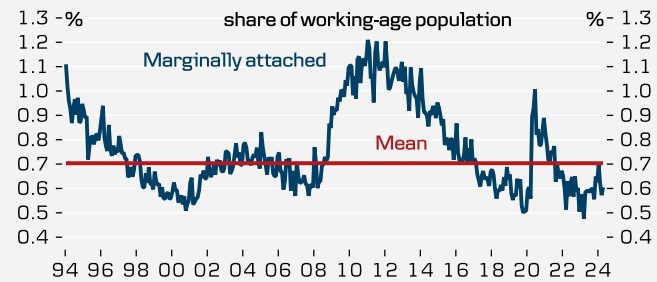
Source: Macrobond Financial, BLS

Long-term unemployment still at low levels



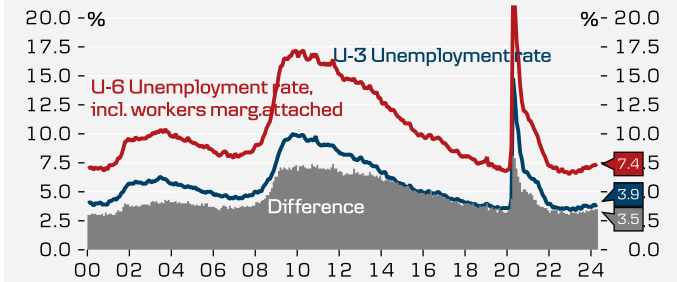
Source: Macrobond Financial, BLS

Marginally attached workers below average



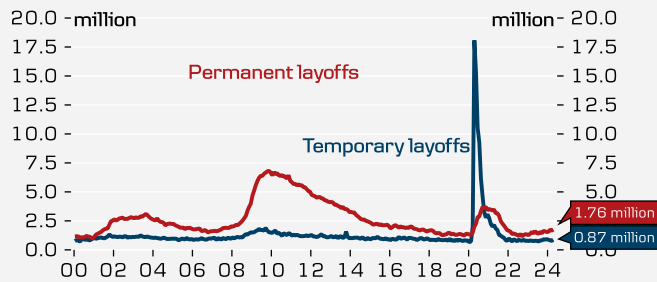
Source: Macrobond Financial, BLS

U6 unemployment slowly increasing



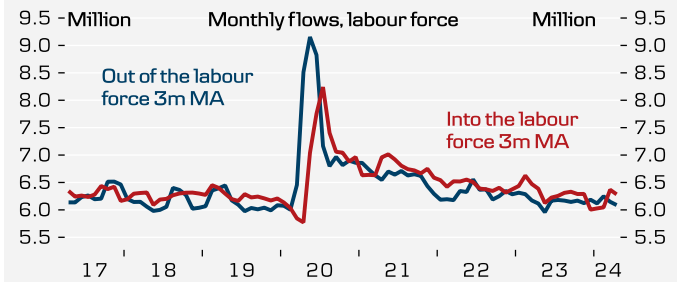
Source: Macrobond Financial, BLS

Permanent layoffs remain low



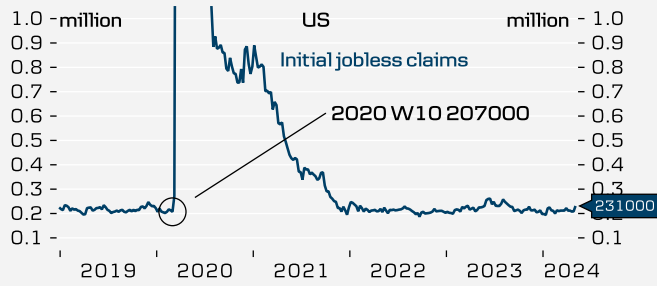
Source: Macrobond Financial, BLS

Labour market flows



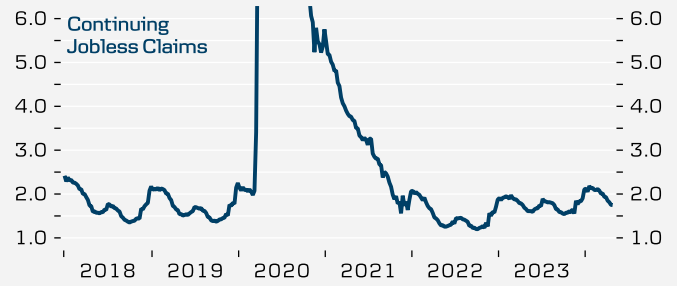
Source: Macrobond Financial, BLS

Initial jobless claims have hardly even risen from the lows



Source: Macrobond Financial, Department of Labor

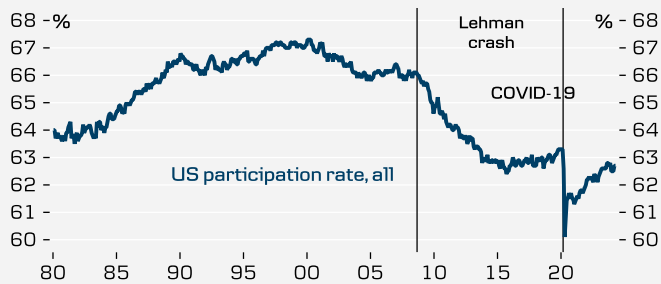
Total continuing claims remain low



Source: Macrobond Financial, Department of Labor

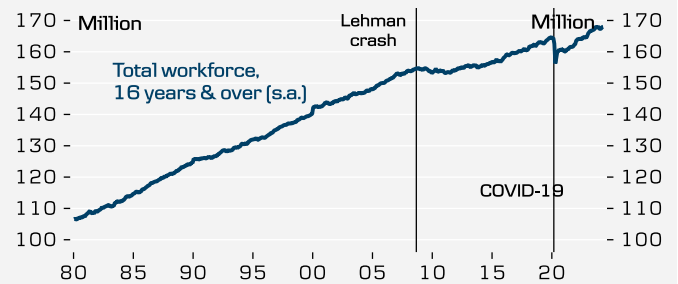
Participation

Participation rate stalling



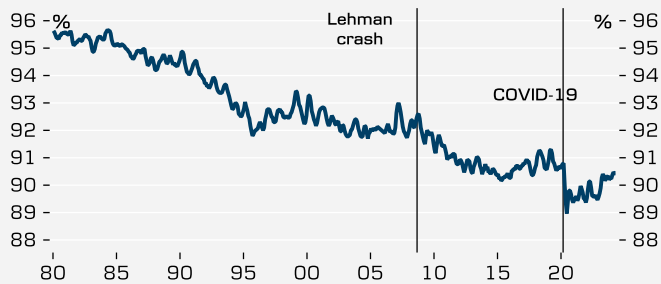
Source: Macrobond Financial, BLS

Labour force recovering, but still below pre-covid trend path



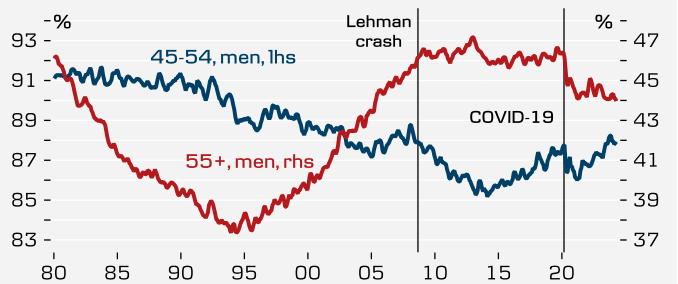
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

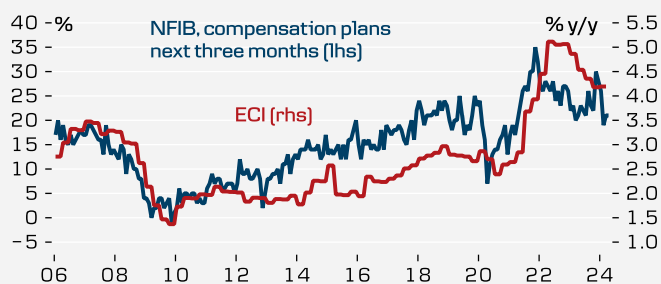
Early retirements have likely contributed to labour shortages



Source: Macrobond Financial, BLS

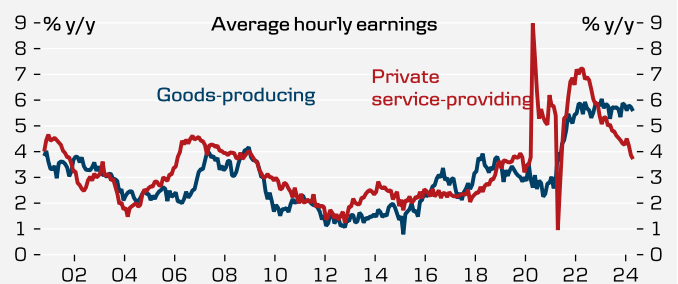
Wage growth and inflation

Employment cost growth somewhat higher



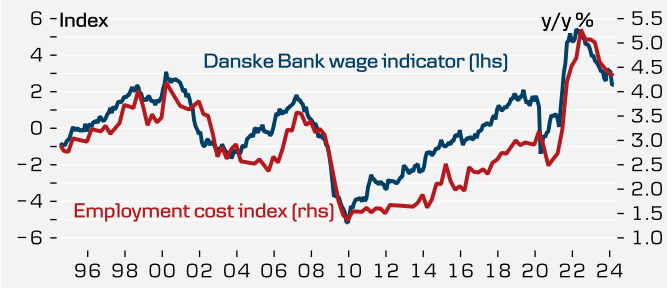
Source: Macrobond Financial, NFIB

Clear signs of easing labour shortages in service-sector



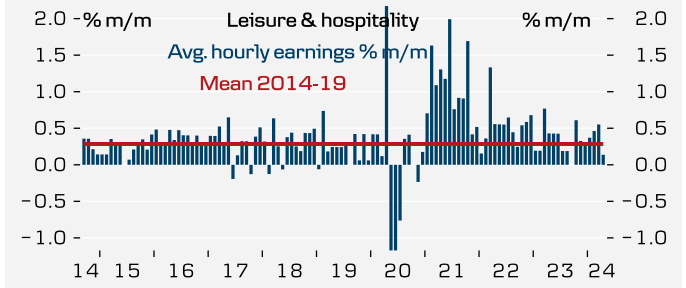
Source: Macrobond Financial, BLS

Declining wage pressure



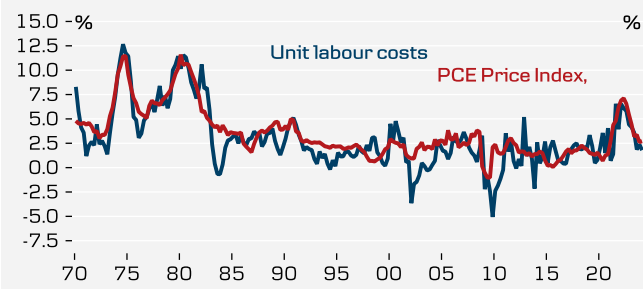
Source: BLS, Danske Bank Markets

Wage growth within "Leisure & Hospitality"



Source: BLS, Conference Board

Unit labour cost growth has generally cooled since 2022



Source: Macrobond Financial, BLS, Census, BEA

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