

US Labour Market Monitor

Early signs of easing wage inflation are not enough to spark a Fed 'pivot'

The September Jobs Report illustrated how the US labour market still remains in a relatively strong shape despite the rising global recession fears. Employment grew by 263 000, and the gains were spread broadly across sectors. Especially the private service-providing sector appears even stronger than the headline figure suggests.

Aside from the Jobs Report, alternative labour market indicators have also remained at relatively strong levels in September. ISM Services Employment index recovered to 53.0, the highest level since last March, while initial jobless claims fell 12.2% m/m. NFIB's Small Business survey recorded an uptick in firms' hiring plans, which remain elevated compared to the historically high pre-covid levels. In the bigger picture, **the Q3 rebound in real purchasing power appears to have sparked at least a temporary uptick in both consumers' and businesses' optimism.**

For the Fed, **the bad news was that the August's clear rise in labour force participation partly reversed in September**, pushing the unemployment rate back to the pre-pandemic low of 3.5%.

That being said, some clear signs of cooling labour demand and wage inflation are starting to emerge. Most notably, the August JOLT's Job Openings saw a steepest decline since the initial Covid-shock, all the way to the lowest level since June 2021. Turnaround in job openings has historically also predicted easing in wage inflation, which still remained at uncomfortably high level of +0.3% m/m in September.

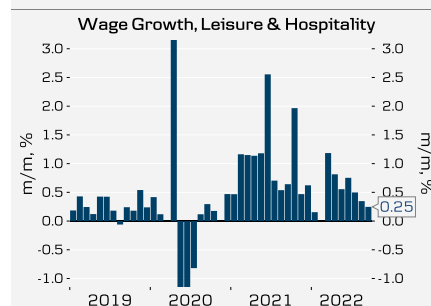
Labour shortages have been the most acute in the leisure & hospitality sector, which remains the only major sector with employment lingering below pre-covid level. Even there, wage growth has moderated from as high as 1.18% m/m in March to only 0.25% m/m in September. Correspondingly, NFIB reports that **firms are experiencing less difficulties filling open positions and compensation plans have declined.**

While clear signs of a cooling labour market and easing wage growth are a key requirement for Fed to eventually wrap up the ongoing hiking cycle, they are not sufficient on their own as long as the underlying consumer price pressures remain high.

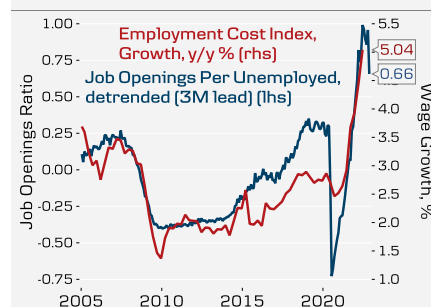
For now, both the markets and the economy are moving to the right direction for the Fed as real yields are rising, market- and survey-based measures of inflation expectations have eased and wage inflation appears to be moderating. Despite the early positive signs, **Fed is still far away from reaching its inflation target, and it will take time until the economy has reached a new equilibrium**, which likely requires an extended period when financial conditions remain restrictive.

For now, aggregate demand remains too high, past high wage rises continue to pass through to consumer prices and consequently the stickier components of inflation have continued accelerating. **A sudden pivot, even in the form of softer communication, could spark a rally in bond and commodity markets, lead to premature easing in financial conditions, and thus increase the risk of renewed waves of inflation.**

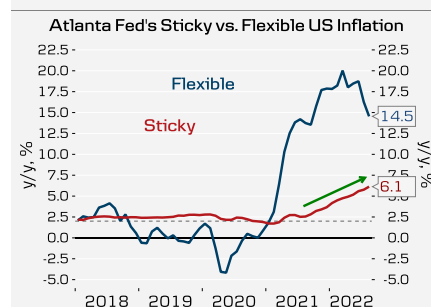
Early signs of easing labour shortages



Labour demand remains high, but the August decline suggests that wage growth could start to moderate



Past high wage growth continues to pass-through to underlying inflation

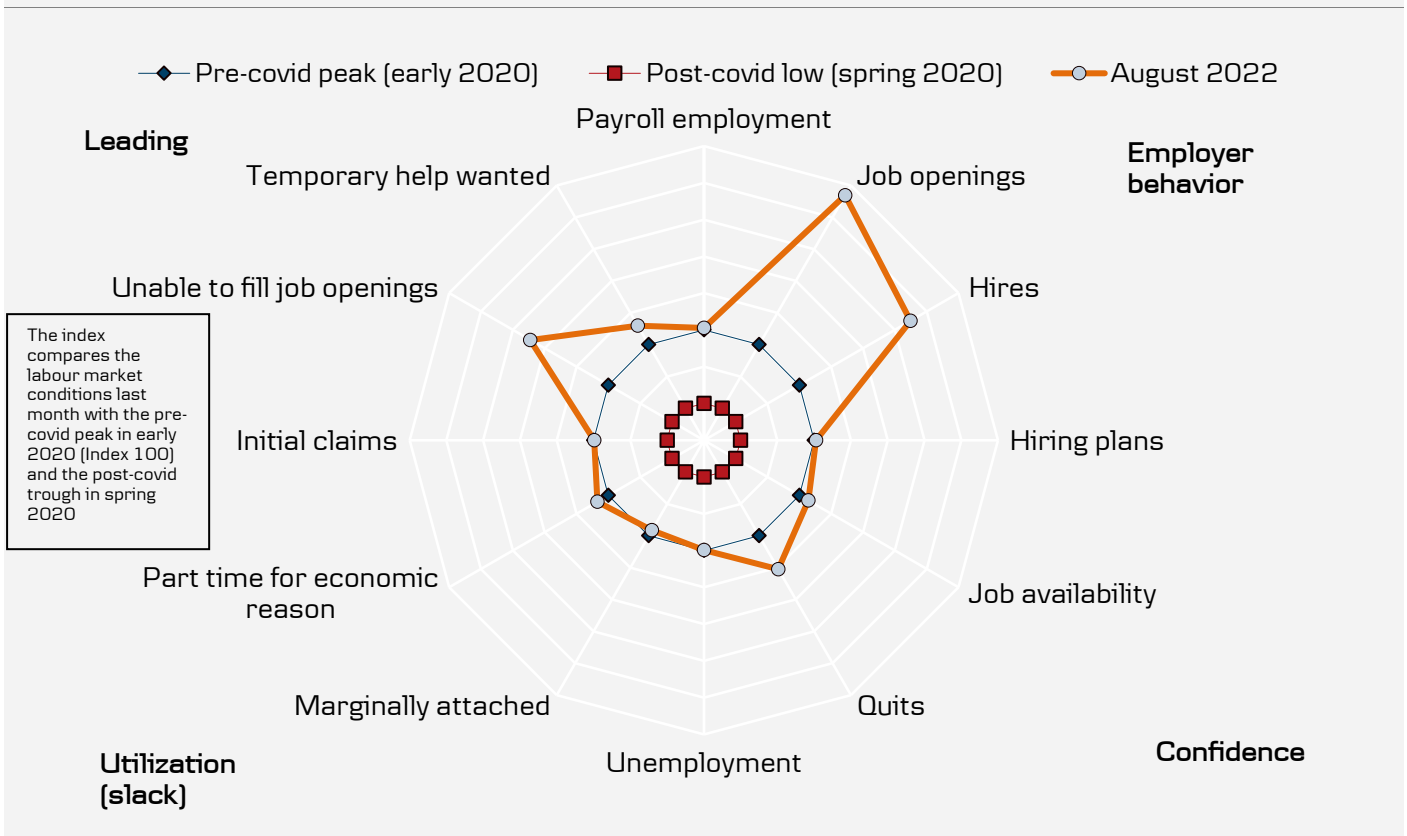


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US labour market in one chart

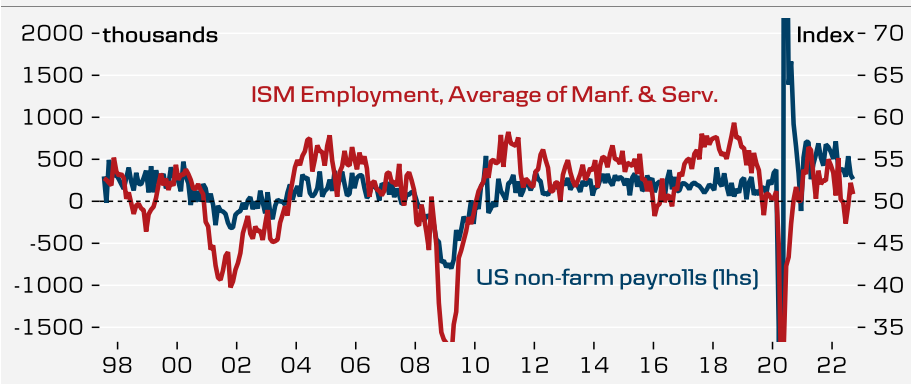
Most indicators still point towards strong labour demand despite the recent recession fears – outward moves indicate stronger labour market



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 sent mixed signals in September, but notably the ISM Services employment index rose to the highest level since last March



Source: Macrobond Financial, ISM, BLS

Labour demand

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



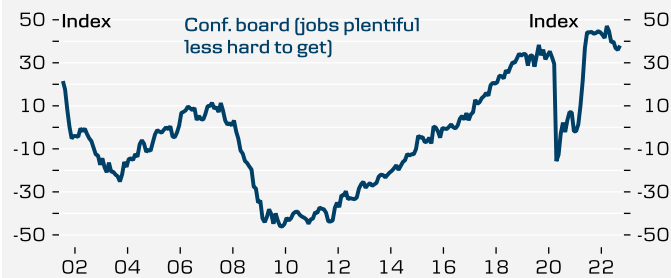
Source: Macrobond Financial, US Department of Labor, BLS

Labour demand is strong but with indications of relief



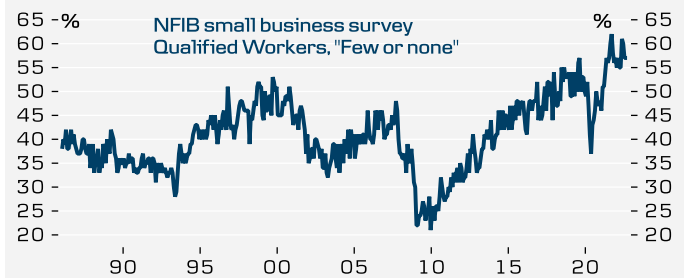
Source: Macrobond Financial, NFIB

Americans still confident in their job prospects



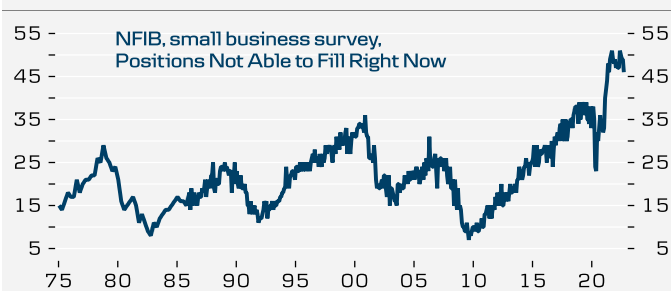
Source: Macrobond Financial, US Department of Labor, BLS

Labor market still tight despite early signs of cooling



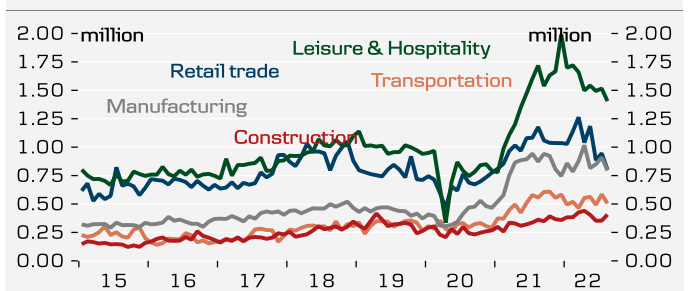
Source: Macrobond Financial, NFIB

Businesses are still unable to fill positions



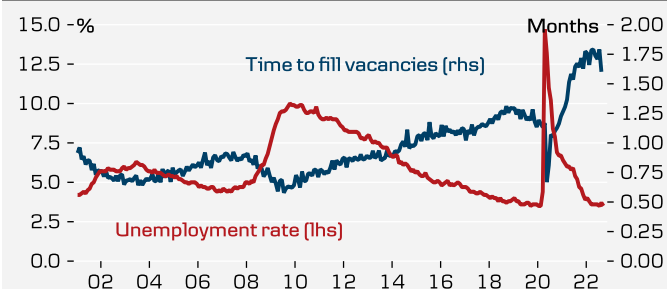
Source: Macrobond Financial, NFIB

Leisure and hospitality is leading with amounts of job openings per sector



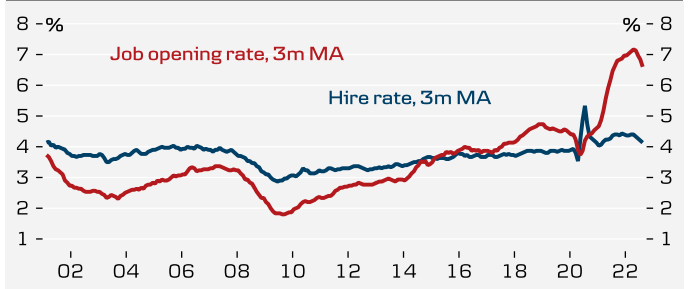
Sources: BLS, Macrobond Financial

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



Source: Macrobond Financial, BLS

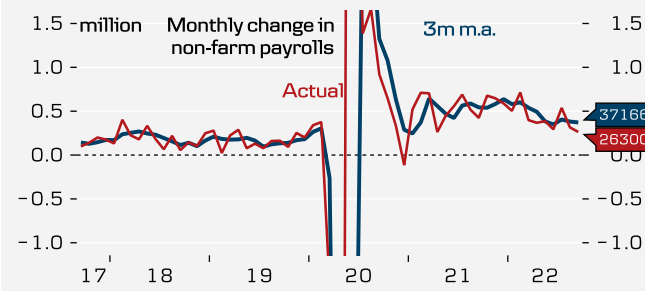
Early signs of cooling in both job openings and hires



Source: Macrobond Financial, BLS

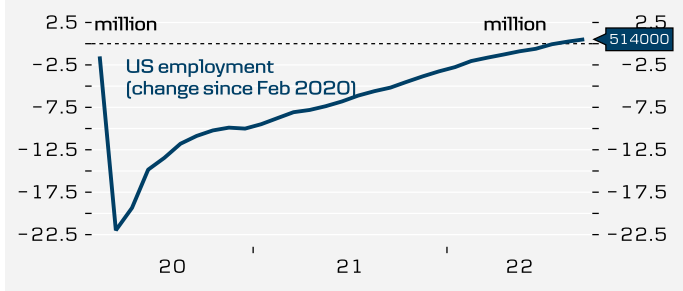
Employment measures

Employment growth remains brisk



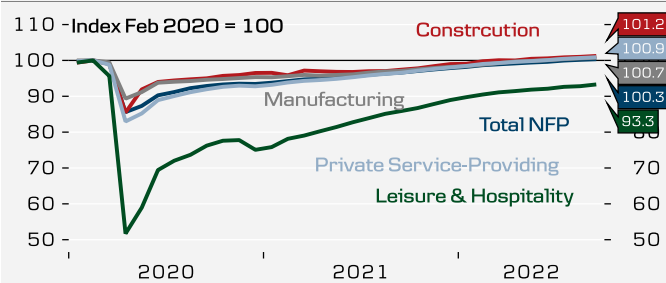
Source: Macrobond Financial, BLS

Employment above pre-covid level, but still below trend



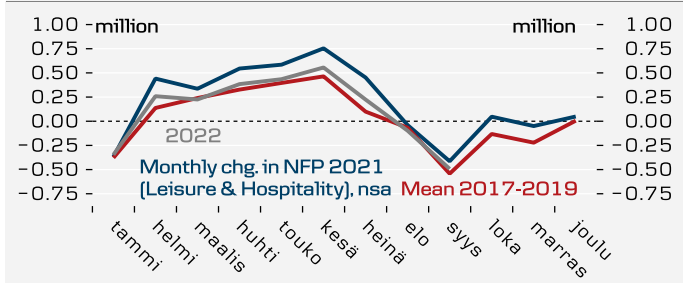
Source: Macrobond Financial, ADP

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



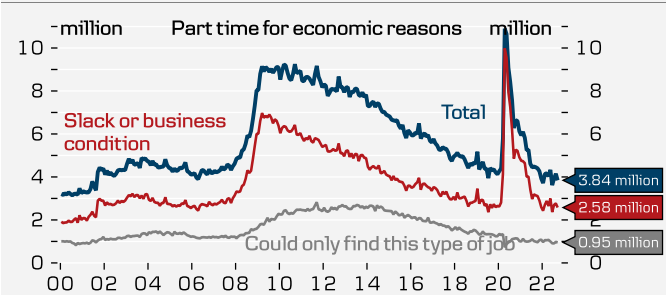
Source: Macrobond Financial, BLS

Monthly change in "leisure & hospitality" employment remains elevated as lingering pandemic effects fade



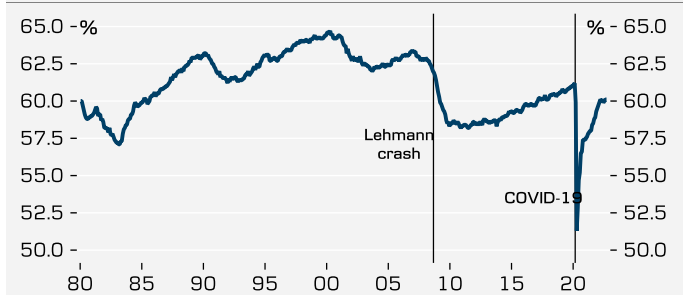
Source: Macrobond Financial, BLS

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



Source: Macrobond Financial, BLS

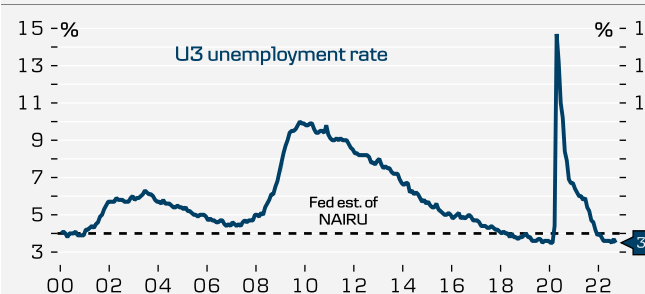
Employment to population ratio still below previous levels



Source: Macrobond Financial, BLS

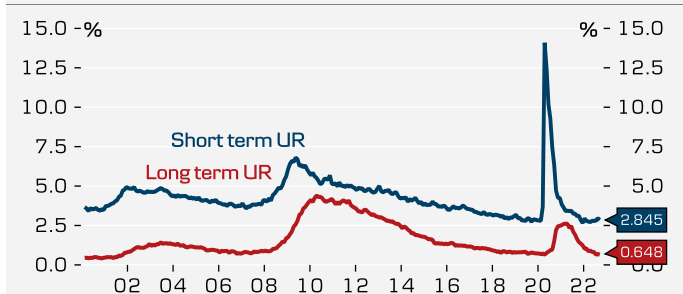
Unemployment measures

Unemployment rate is well below Fed's NAIUR estimate



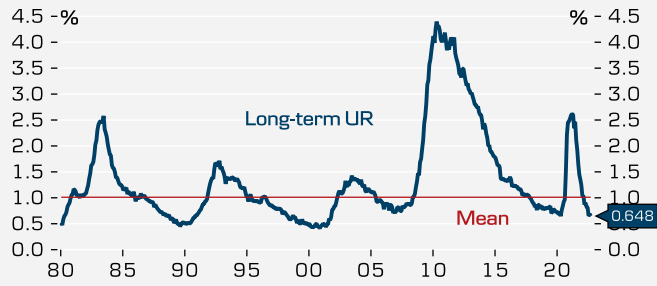
Source: Macrobond Financial, FOMC, BLS

Long-term unemployment is little changed but still a bit higher than before covid



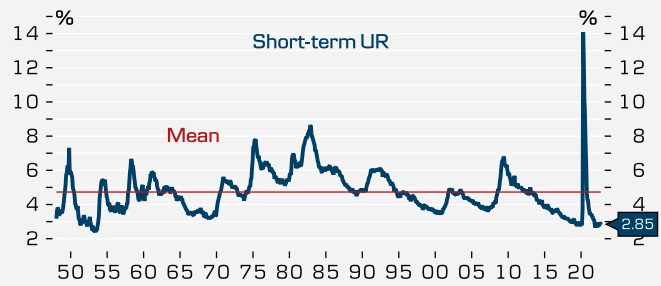
Source: Macrobond Financial, BLS

Long-term unemployment rate below the historical average



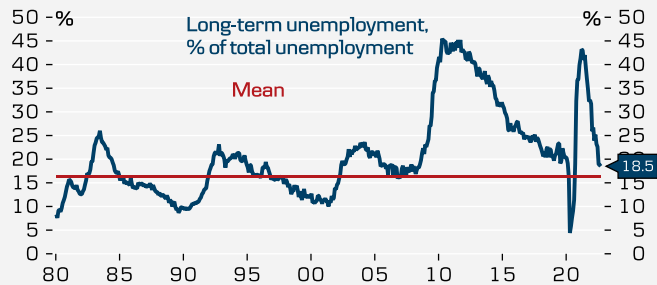
Source: Macrobond Financial, BLS

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



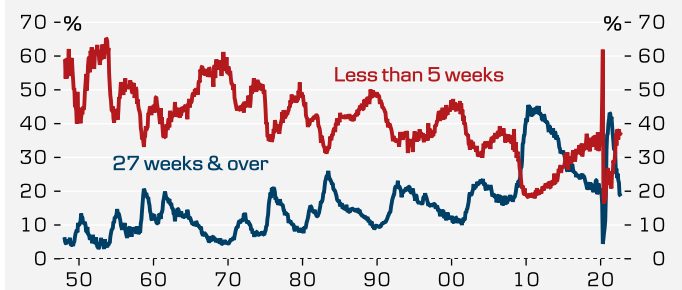
Source: Macrobond Financial, BLS

Long-term unemployment in % of total unemployment is falling



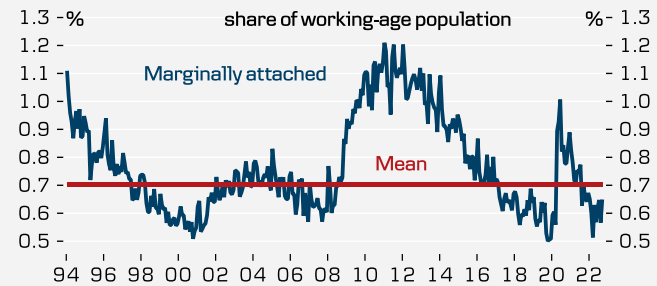
Source: Macrobond Financial, BLS

Unemployment - duration



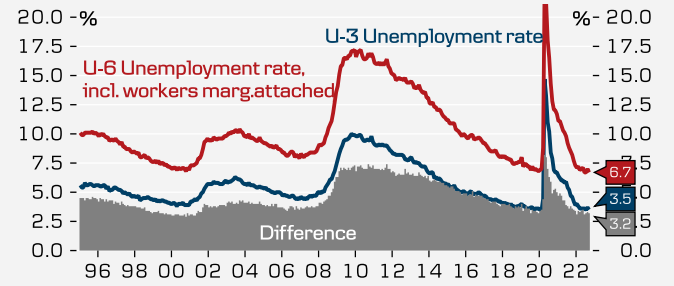
Source: Macrobond Financial, BLS

Marginally attached workers increased but is below average



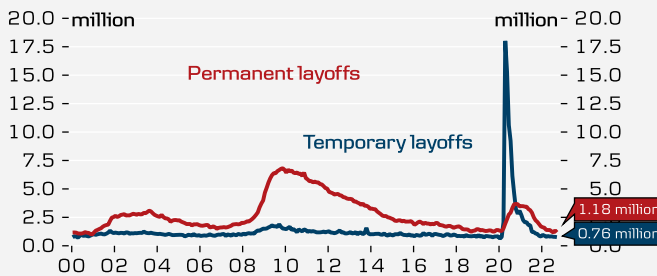
Source: Macrobond Financial, BLS

U6 unemployment is now below pre-COVID levels



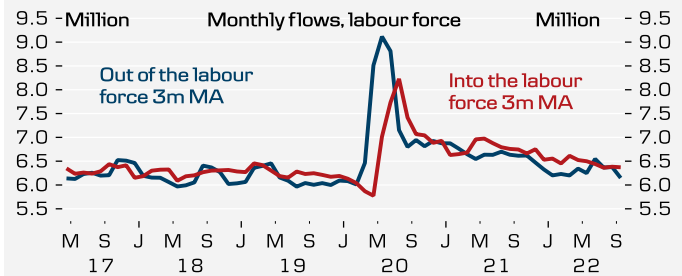
Source: Macrobond Financial, BLS

Permanent layoffs moved sideways



Source: Macrobond Financial, BLS

Labour market flows



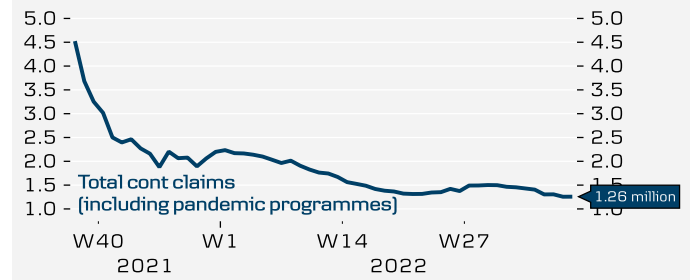
Source: Macrobond Financial, BLS

Initial jobless claims back to pre-covid levels



Source: Macrobond Financial, Department of Labor

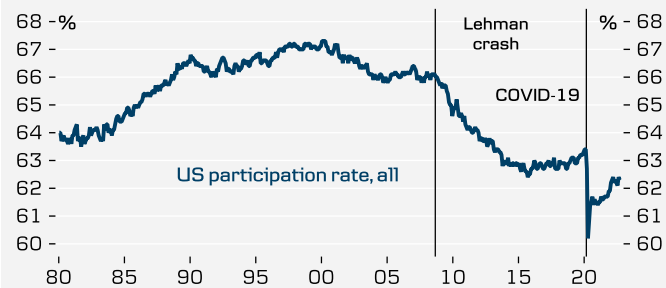
Total continuing claims are going sideways but below pre-COVID levels



Source: Macrobond Financial, Department of Labor

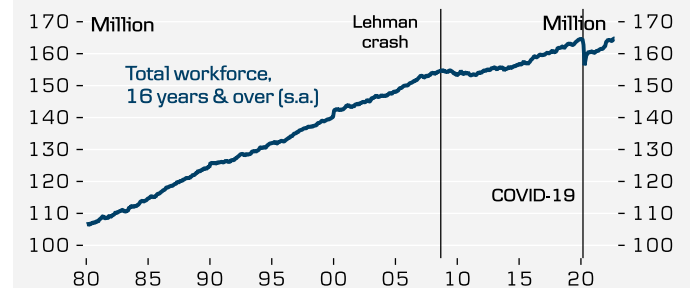
Participation

Participation rate declined again in September



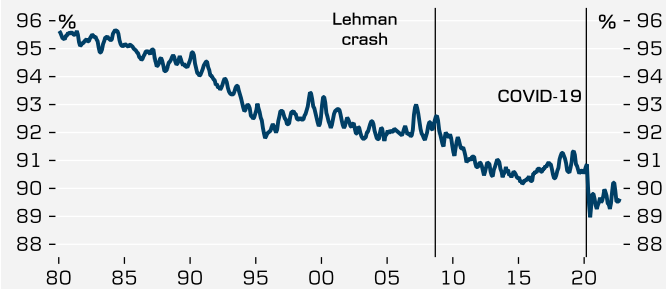
Source: Macrobond Financial, BLS

Labour force persistently below pre-covid path



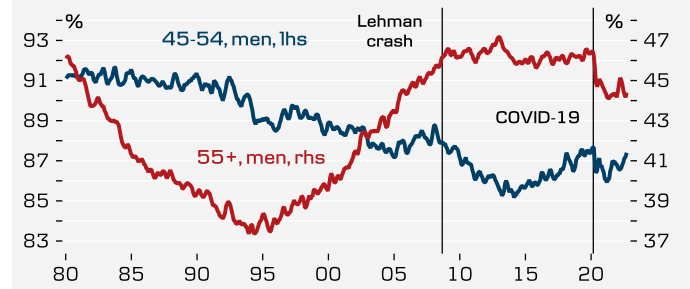
Source: Macrobond Financial, BLS

Participation rate, 35-44, men



Source: Macrobond Financial, BLS

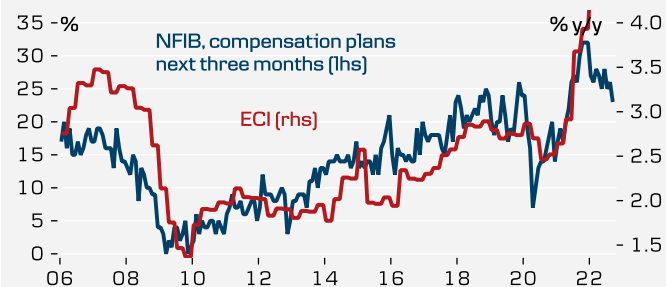
Participation rate, 45-54 and 55-plus, men



Source: Macrobond Financial, BLS

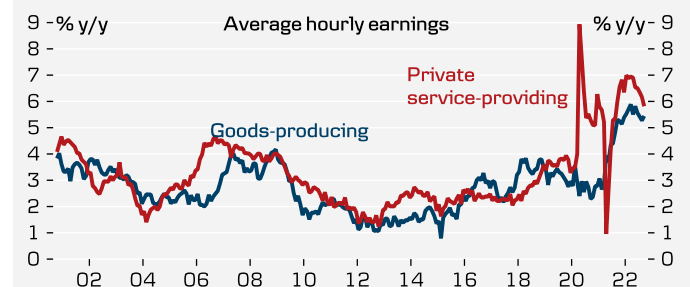
Wage growth and inflation

NFIB have peaked



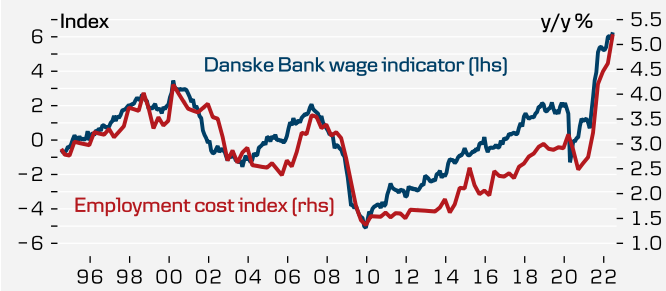
Source: Macrobond Financial, NFIB

Some signs of easing labour shortages in service-sector



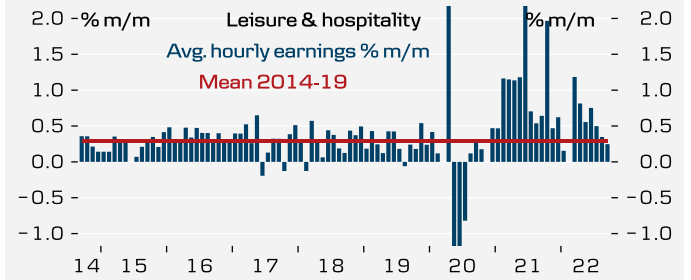
Source: Macrobond Financial, BLS

Rising wage pressure



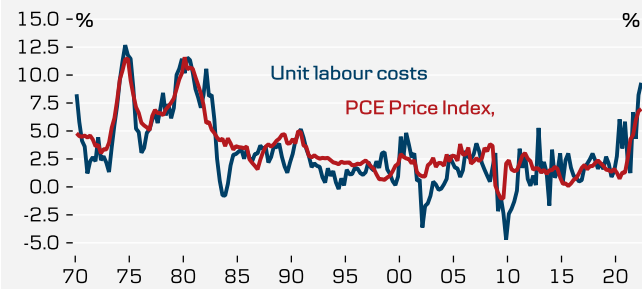
Source: BLS, Danske Bank Markets

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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