

Economics

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US Non-farm payrolls: It's the government's fault!

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Employment change (thousands, unless otherwise noted)	Apr 24	Mar 24	Feb 24	Jan 24	Dec 23
Unemployment rate (%)	3.9	3.8	3.9	3.7	3.7
Avg. hrly earn all (Monthly % Chg)	0.2%	0.3%	0.1%	0.5%	0.3%
Avg. wkly hour all (Monthly % Chg)	-0.1%	0.6%	0.4%	-0.1%	0.3%
Nonfarm employment	175	315	236	256	290
Total private	167	243	181	196	214
Goods-producing	14	39	15	30	33
Construction	9	40	24	26	18
Manufacturing	8	-4	-9	6	12
Priv. Serv providing	153	204	166	166	181
Wholesale trade	10.1	10	-4	-7	7
Retail trade	20.1	15	23	17	32
Transp. & Warehousing	21.8	6	31	-4	-18
Information	-8	4	-3	8	13
Financial	6	5	-7	-4	6
Business services	-4	10	6	48	13
Temporary help	-16.4	-3	-16	8	-21
Education, health	95	88	80	100	84
Leisure, hospitality	5	53	26	-3	41
Government	8	72	55	60	76
Federal Government	2	10	7	13	9

Source: Haver Analytics

- The US jobs market cooled a bit in April, with payroll job gains coming below expectations for the first time since last November. Employment rose by 175K, compared to consensus expectations of a 240K increase and the 315K gain in the month prior. Over the previous two months, there were -22K net revisions. The unemployment rate rose one notch to 3.9%, above consensus views of 3.8%, and the part rate stayed unchanged at 62.7%. Wage growth slowed one tick to 0.2% m/m. The Fed will be pleased with today's data given Powell's dovish bias, particularly the slower wage growth number and part-rate remaining steady, as both help with slower price gains going forward. But overall the labor market still remains strong and they will need to see more evidence of a slowdown, or a surprise sharp drop in employment, to be worried about their employment mandate after such a strong string of job gains. Ultimately, the FOMC is going to stay on hold until they have clarity on inflation. They are trying to assess whether the uptick in price pressures in Q1 is going to be persistent or not, and with the labor market not cracking, they have some time to figure it out.

- While we think the economy has more excess demand than the Fed seems to be letting on to, we also believe there is no small idiosyncratic part to the uptick in Q1 inflation which should pass, paving the way for a couple of cuts this year.
- Arguably one of the main reasons for the downshift in payrolls was due to weaker government hiring, which slowed to a crawl, adding 8K jobs in the month compared to an average of 60K over the past six months. Government jobs have been a major contributor to hiring, accounting for 25% of the jobs added over the prior six month period. Is this dip a flash in the pan or a new trend? One data point is hard to draw an inference from and seasonal patterns could be at play, but underneath the hood we see evidence that public sector hiring should ease and provide less of a boost to employment going forward.
- All three levels of government -- federal, state and local -- showed depressed hiring in the month, and for state government, that is a continuation of a trend. The level of federal and state government hiring have been very elevated. We're not sure they need to be more staffed up anymore, especially the federal level which is now 6% above the end of 2019 levels. Local government hiring has been holding up the segment's job numbers until this month, where it posted zero gain in the month. Local government hiring has been less impressive over the cycle but is now back to its pre-pandemic level, so while more job gains are likely, we expect the pace will be more moderate.
- Most other sectors, however, showed more of the same, with solid job growth in cyclically sensitive sectors and healthcare. Leisure and hospitality job growth also fell off a cliff, but we view this number and prior hot readings in this segment with some suspicion because of warm weather over the winter months and post-COVID seasonal patterns still seeming like a mess.
- Wage growth came down one notch to 0.2% m/m compared to 0.3% in March and average hours worked per week ticked down to 34.3. The Fed will be pleased with wages in the range of 0.2-0.3% for this report and total hours coming down a bit. The ECI heated up in Q1 but that was mostly driven by unionized workers, whose wage levels were below non-unionized so that reflects more catch-up wage growth. The Fed will be pleased to see wage growth normalizing at the start of Q2, as this bodes well for cooler non-housing services inflation down the road.
- The more volatile household survey showed job gains of 25K in the month and the three month average in April stood at 113K. The unemployment rate ticked up to 3.9% as labor force growth slowed a bit, perhaps as fewer foreigners entered the labor market in the month. But the unemployment rate remains around estimates of the natural rate of unemployment, which NY Fed President John Williams put at about 3.75%. Crucially though, the household survey likely misses a large portion of the population surge from undocumented workers so the weakness in the survey should be taken with a grain of salt especially given the strength in hiring in the payroll survey which captures more of the immigration pick up.
- The key trend in the household survey remains the participation rate and that remained very steady at 62.7% in the month, and that could be somewhat understated because of the survey does not capture all foreign workers who could have a very high participation rate. The Fed's view of labor supply as a key driver of growth won't be changed after today's report. Stronger labor input means the economy is capable of growing faster without stoking as much inflation.

Implications & actions

Re: Economic forecast — The US labor market slowed a touch in April but the Fed will need to see more evidence of labor cooling to feel their employment mandate is at risk. Their focus remains on inflation and determining if we are in a world of slightly higher inflation persistence or not. We don't think we are but that will take a few months to shake out, and we expect the Fed to find a path to easing twice this year.

Re: Markets — Bond yields and the broad dollar fell initially on the downside surprise to payrolls and the higher tick up in the unemployment rate.

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