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US Employers still paying up

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Employment change (thousands, unless otherwise noted)	Apr 23	Mar 23	Feb 23	Jan 23	Dec 22
Unemployment rate (%)	3.4	3.5	3.6	3.4	3.5
Avg. hrly earn all (Monthly % Chg)	0.5%	0.3%	0.3%	0.3%	0.4%
Avg. wkly hour all (Monthly % Chg)	0.5%	0.0%	0.0%	0.9%	0.1%
Nonfarm employment	253	165	248	472	239
Total private	230	123	193	353	232
Goods-producing	33	-17	18	41	36
Construction	15	-11	14	26	26
Manufacturing	11	-8	3	11	6
Priv. Serv providing	197	140	175	312	196
Wholesale trade	-2	1	7	9	10
Retail trade	8	-20	48	22	27
Transp. & Warehousing	11	14	-18	32	0
Information	1	6	-8	-23	-9
Financial	23	-1	0	-1	4
Business services	43	23	21	44	23
Temporary help	-23	-19	-10	17	-55
Education, health	77	60	64	111	71
Leisure, hospitality	31	40	57	99	58
Government	23	42	55	119	7
Federal Government	3	8	9	12	1

Source: Haver Analytics

- The US labor market heated up in April, as hiring accelerated to 253K (vs. 185K consensus), although there was a downward revision to the prior two month job total (-149K), which offset the upside surprise. Business services, health/social assistance, and leisure and hospitality led the job gains, while employment in goods-producing sectors rebounded following a drop in March. The 0.5% advance in wages (vs. 0.3% expected), and the one tick decline in the unemployment rate to 3.4% (vs. expectations for a tick increase to 3.6%) suggest that rate cuts from the Fed are still far off, and something that we don't expect to see until 2024.
- The acceleration in wage growth reflected higher wages on offer in service sectors, including education/health and professional business services, while wages decelerated sharply in the leisure and hospitality sector after a big jump in the prior month. The momentum in overall service sector wages, where labor costs are a high share of total input costs, will garner the Fed's attention, as it is looking for a cooling in core services inflation to get back to the 2% target.

- The 31K gain in jobs in the leisure and hospitality sector, along with the acceleration in hours worked in that industry, suggest that demand is still solid in discretionary services, in line with job openings in the sector increasing at the end of March. In contrast, the robust hiring in business services seems to be coinciding with a drop in job openings, suggesting that the hiring may not represent new demand for labor, but these businesses were likely understaffed months ago. Indeed, there was little evidence of the mass tech layoffs that have captured media headlines, as employment in the information sector also rose. Extending recent strength, the education and health care industry was the largest contributor to employment growth. Hiring in that sector could continue to be supported by investment from state and local governments that are flush with cash.
- The household survey, which is more volatile and less reliable on a month-to-month basis, showed a more modest 139K gain in jobs, after an outsized increase in March. The total participation rate was unchanged, and that caused a one tick drop in the unemployment rate to the lowest level seen since January. Encouragingly, the prime-age (25-54 years) participation rate rose to exceed its pre-pandemic level for the first time during this cycle. But there may be room for it to continue to climb, as historically we have seen higher levels of participation, and diminished savings and prior inflation might put more pressure on Americans to seek labor income.
- Aggregate hours worked bounced back, rising by 0.2% following a 0.3% retreat in March. That included an advance in goods-producing sectors, suggesting that demand in interest-sensitive industries might not have deteriorated further in April. The 0.5% increase in service sector hours made up for two straight months of declines at the end of the first quarter.

Implications & actions

Re: Economic forecast — The upside surprise in this data is in contrast to the deterioration seen in initial jobless claims, job openings, and the ISM services employment sub-index, and shows that interest rates will have to remain elevated for some time in order to cause a loosening in the labor market that is consistent with 2% inflation. Although the hit to activity from a tightening of credit due to banking sector issues remains to be seen, the gain in total hours worked suggests that the second quarter may avoid the modest contraction that we had penciled in.

Re: Markets — Bond yields increased and the USD strengthened, as the upside surprises in the data leaned against the market's pricing of interest rate cuts in the coming months.

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