

Economics

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US Non-farm payrolls: The Fed will need to start helping soon

by **Ali Jaffery** ali.jaffery@cibc.com

Employment change (thousands, unless otherwise noted)	Jun 24	May 24	Apr 24	Mar 24	Feb 24
Unemployment rate (%)	4.1	4.0	3.9	3.8	3.9
Avg. hrly earn all (Monthly % Chg)	0.3%	0.4%	0.2%	0.4%	0.1%
Avg. wkly hour all (Monthly % Chg)	0.3%	0.4%	-0.1%	0.7%	0.4%
Nonfarm employment	206	218	108	310	236
Total private	136	193	108	232	181
Goods-producing	19	12	-3	33	15
Construction	27	16	-5	37	24
Manufacturing	-8	0	7	-6	-9
Priv. Serv providing	117	181	111	199	166
Wholesale trade	14.2	1.5	6.5	10	-4
Retail trade	-8.5	7.1	14.2	19	23
Transp. & Warehousing	7.3	12.2	20.8	5	31
Information	6	5	-3	2	-3
Financial	9	12	-3	4	-7
Business services	-17	31	-17	17	6
Temporary help	-48.9	-15.9	-23.7	-1	-16
Education, health	82	81	98	76	80
Leisure, hospitality	7	22	-9	54	26
Government	70	25	0	78	55
Federal Government	5	3	0	12	7

Source: Haver Analytics

- The US labor market started the summer off on a softer note, as payroll jobs were revised down substantially in the prior two months and the unemployment rate continued to tick up. Employment rose by 206K, slightly above consensus expectations of a 190K increase and the 218K gain in the month prior. Over the previous two months, there were -111K net revisions. The unemployment rate ticked up a notch to 4.1%, one notch above expectations, but so did the participation rate, which moved up a tick to 62.6%. Wage growth slowed one notch to 0.3% m/m, in line with expectations. Today's data reinforces the view that the labor market is closed to balanced, with demand clearly softening and supply remaining solid. The labor market is still not weak yet, and that gives the Fed some leverage to wait a bit more progress on inflation. But where the labor market will be in six months to a year should worry in the Fed. That forward-looking view of the labor market and some further progress on the inflation front will make the Fed confident enough to ease policy a couple of times this year, starting in September.

- The downward revisions to payrolls were spread about evenly across April (-57K) and May (-54K) and about two-thirds of the total 111K jobs revised away were from more cyclically sensitive sectors (employment outside of government and private healthcare and education). Nearly 40% of the downward revision over the prior two months came from leisure and hospitality alone. This brings the payroll survey a bit more in line with the other labor market surveys that are showing a more clear softening trend. The payroll survey is still likely growing at a pace consistent with "break-even" given the surge in labor supply and shows a steady job market largely supported by public sector hiring and catch-up hiring in health care (with these sectors accounting for an average of over 70% of job gains over the past three months). But it is not obvious to us that government hiring needs to continue at this pace with federal and state hiring above or at pre-pandemic levels, and healthcare hiring is also near its pre-pandemic trend. We are not at, but also likely not far from an inflection point on payroll job growth. The case for the Fed to step in and alleviate some of the pressure on the labor market is stronger after today's payroll revisions.
- Wage growth edged down one notch to 0.3% m/m in June compared to 0.4% in May and average hours worked per week stayed unchanged at 34.3. Our proxy for labor income in the month (total hours worked times wages) grew by 0.4% m/m in June or stands at 2.8% on a three-month annualized basis. That is a step down from slightly over 4% in the month prior. With the Atlanta Fed Wage Tracker updates paused and the ECI less frequent, the Fed will have to rely a bit more on average hourly earnings and this measure is still pointing to progress. Three-month annualized wage growth is running at 3.6% in June, not far from a pace consistent with 2% inflation.
- The household survey continued to show softer demand and strong supply. Employment grew by 116K in that survey but on a three-month average basis stood at -89K after the sharp drop in the month prior. The unemployment rate ticked up to 4.1% as participation rose and is now a shade below the FOMC's long-run unemployment rate view of 4.2%. Our own thinking is that the long-run unemployment rate in the US is likely somewhere between 3.7% and 4%. As a result, today's data might be telling us that the labor market is on the verge of tipping into excess supply. Team "Sahm Rule" will also note that we are within a 0.1%-point of the infamous recession rule indicator being triggered. We are less alarmed by that rule and don't see a recession on the horizon. The Fed will also be pleased with the strength in prime-age participation which increased to 83.7%, a level not seen since late 2001 and early 2002. More people are searching for work but firms are clearly adding less and less additional labor as they, and possibly consumers, feel the weight of monetary policy.

Implications & actions

Re: Economic forecast — The US labor market looked weaker after the June jobs report given large downward revisions to payrolls in the prior two months and a further tick up in the unemployment rate. The forward-looking view on the labor market should worry the Fed, and combined with more inflation progress, will be enough for the Fed to start easing policy this year. We expect cuts in September and December of this year.

Re: Markets — Bond yields fell but the dollar was more choppy immediately after the release. The dollar has subsequently strengthened as of writing.

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CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC