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US Labor market: Still too much of a good thing

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Employment change (thousands, unless otherwise noted)	Apr 22	Mar 22	Feb 22	Jan 22	Dec 21
Unemployment rate (%)	3.6	3.6	3.8	4.0	3.9
Avg. hrly earn all (Monthly % Chg)	0.3%	0.5%	0.1%	0.6%	0.5%
Avg. wkly hour all (Monthly % Chg)	0.3%	0.2%	0.4%	0.0%	0.5%
Nonfarm employment	428	428	714	504	588
Total private	406	424	704	492	561
Goods-producing	66	67	114	32	93
Construction	2	20	54	6	44
Manufacturing	55	43	50	26	41
Priv. Serv providing	340	357	590	460	468
Wholesale trade	22	25	27	13	19
Retail trade	29	25	111	121	38
Transp. & Warehousing	52	10	74	53	22
Information	12	21	0	5	9
Financial	35	12	29	2	14
Business services	41	94	87	88	91
Temporary help	2	1	28	28	41
Education, health	59	57	101	33	65
Leisure, hospitality	78	100	124	138	186
Government	22	4	10	12	27
Federal Government	-6	-2	-1	3	-8

Source: Haver Analytics

- We've seen such big numbers at some points in this recovery that it's easy to forget that April's US job gains were still too much of a good thing for an economy that's already overheated. Hiring remained solid, as 428K jobs were added on the month. When accounting for the -39K revision to the prior two-month job tally, the result was roughly in line with the 380K consensus expectation. Job gains were widespread across industries, but the household survey showed a loss of 353K jobs after an outsized gain in March, which left the unemployment rate unchanged at a tight 3.6% (versus 3.5% expected), along with a drop in the participation rate. That was one of the few soft notes in the report, and while monthly wage growth decelerated to 0.3%, it's too early to suggest that that's the start of a decelerating trend. Overall, this report won't sway the Fed away from a 50bps at the next FOMC.
- The leisure and hospitality sector was the single largest contributor to the headline job gain, but that sector is still 1.4mn jobs short of its pre-pandemic level. That sector continues to grapple with a labor shortage, and wages were up by a strong 0.5% for non-supervisory employees in April. Although high-frequency service indicators levelled off in

April, employers were likely trying to hedge against future demand increases by holding onto and attracting new employees. That's also consistent with the continued hiring in the retail sector.

- Manufacturing was the second largest contributor to the headline job gain, which is surprising given the escalation in supply chain issues arising from the lockdowns in China, and the weakness in goods sectors suggested by the Q1 GDP report. Employment was roughly unchanged in the construction industry, likely tied to weakness on the non-residential side. While industrial construction should get a lift as the pandemic continues to fade, new homebuilding will be limited by the rise in mortgage rates.
- Although jobs were lost on the household survey, fewer survey respondents reported being unable to work due to the pandemic in April. That might change in May given some signs of yet another Omicron subvariant beginning to spread. The drop in the participation rate to 62.2% reflected an increase in those not in the labor force who wanted a job, but did not look for work in the four weeks preceding the survey. Interestingly, those prevented from looking for a job due to the pandemic fell to 586K from 874K in March. At 3.6%, the unemployment rate is only a hair above its pre-pandemic level.
- The broader U-6 measure of unemployment that includes marginally attached workers and those employed part-time for economic reasons, ticked up to 7.0% in April, but matches its February 2020 level. It is noteworthy that inflation is running so much hotter than it was prior to the pandemic, with many of the key benchmarks for the labour market essentially matching those pre-pandemic conditions. That suggests that weak participation is making it more costly to lure workers back to jobs, but also that factors beyond labour market tightness are important contributors to the CPI pressures we've seen.
- Aggregate hours worked picked up to 0.4% after making no progress in March. However, aggregate hours for goods-production workers still sit below February's level, perhaps reflecting weakness from renewed supply chain disruptions. Hours worked in services grew by 0.3% in April, matching the pace seen in March, and suggesting that activity was resilient as Americans increasingly choose to ignore Covid risks, potentially due to the fact that a majority have already been through at least one infection and feel either immune or less worried about its impact.

Implications & actions

Re: Economic forecast — An increase in participation ahead should help extend healthy job gains, as job vacancies remain elevated, but hiring will still be limited by the prime-age employment-to-population ratio sitting just a hair below pre-pandemic levels. At 3.6%, the labor market remains tight and the Fed will remain on course to raise rates by 50bps at the next FOMC.

Re: Markets — Neither yields nor the US dollar saw a sustained reaction to this report, which was broadly in line with what the consensus was expecting.

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