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US labour market continues to rebalance but likely not enough to satisfy the Fed

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Employment change (thousands, unless otherwise noted)	July 23	June 23	May 23	Apr 23	Mar 23
Unemployment rate (%)	3.5	3.6	3.7	3.4	3.5
Avg. hrly earn all (Monthly % Chg)	0.4%	0.4%	0.3%	0.4%	0.3%
Avg. wkly hour all (Monthly % Chg)	0.1%	0.7%	0.0%	0.4%	0.0%
Nonfarm employment	187	185	281	217	217
Total private	172	128	255	179	157
Goods-producing	18	31	24	25	-19
Construction	19	26	25	11	-9
Manufacturing	-2	6	-4	9	-12
Priv. Serv providing	154	97	231	154	176
Wholesale trade	18	-8	8	-2	4
Retail trade	9	-14	21	-2	-19
Transp. & Warehousing	-8	-9	19	-15	16
Information	-12	-5	-4	3	3
Financial	19	9	13	27	-5
Business services	-8	23	45	48	45
Temporary help	-22	-20	-7	-21	-3
Education, health	100	71	88	77	70
Leisure, hospitality	17	19	28	11	46
Government	15	57	26	38	60
Federal Government	7	3	9	4	11

Source: Haver Analytics

- Since bad news is good news these days, Jay Powell will be smiling this morning, if not entirely happy. The below consensus reading in hiring in the July payrolls is the type of labour market softening the Fed is looking for. The report indicated that the US labour market is continuing to gradually move into better balance but this process is not complete. The pace of hiring is above growth in the working-age population, and combined with firm wage pressures and the drop in the unemployment rate, we maintain our call that the Fed will be on track to hike once more in September.
- Hiring rose modestly in the US in July, with 187K jobs added compared to 185K in June. But this was below consensus of 200K, and came with 49K negative revision to the prior two-month job tally which compounded the downside miss. The rest of the report indicated a still strong labor market, as the unemployment rate ticked down to

3.5%, reflecting a 268K gain in jobs in the household survey, while average wages rose by a strong 0.4% m/m, a tick above expectations. Aggregate hours worked declined by 0.1% m/m, after a strong reading the prior month.

- More than half of the job growth in the month came from the Education and Health Care sector (+100K). Hiring in this sector has likely been aided by investment from state and local governments that are flush with cash. But there was a generally weaker trend across most other sectors across. In particular, employment in transportation/warehousing dropped for the second consecutive month, information saw its third straight decline and temporary help payrolls fell for the fifth consecutive month.
- The supply-side of the labour market was broadly unchanged in the month. The headline participation rate held flat for the fifth straight month at 62.6% but the prime-age (25-54 year old) participation rate edged down a tick to 83.4%. This was its first decline since November 2022 but it remained above its pre-pandemic peak of 83.1%.
- The household survey, which is more volatile and less reliable on a month-to-month basis, posted 268K jobs in June, and that left the unemployment rate lower at 3.5%. The broader U-6 measure of unemployment, which accounts for those working part-time for economic reasons, fell by two ticks to 6.7%.

Implications & actions

Re: Economic forecast — The below consensus hiring and past downward revisions suggests that the labor market is coming into better balance. Still, the drop in the unemployment rate and solid wage growth will keep the Fed on track for a 25bp hike in September.

Re: Markets — Bond yields and the broad dollar fell as hiring was softer than expected, especially after the upside surprises seen in the ADP.

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