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US Hiring slows, but not by enough to satisfy the Fed

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Employment change (thousands, unless otherwise noted)	June 23	May 23	Apr 23	Mar 23	Feb 23
Unemployment rate (%)	3.6	3.7	3.4	3.5	3.6
Avg. hrly earn all (Monthly % Chg)	0.4%	0.4%	0.4%	0.3%	0.3%
Avg. wkly hour all (Monthly % Chg)	0.7%	0.1%	0.4%	0.0%	0.0%
Nonfarm employment	209	306	217	217	248
Total private	149	259	179	157	193
Goods-producing	29	23	25	-19	18
Construction	23	23	11	-9	14
Manufacturing	7	-3	9	-12	3
Priv. Serv providing	120	236	154	176	175
Wholesale trade	-4	4	-2	4	7
Retail trade	-11	23	-2	-19	48
Transp. & Warehousing	-7	17	-15	16	-18
Information	0	0	3	3	-8
Financial	10	12	27	-5	0
Business services	21	61	48	45	21
Temporary help	-13	3	-21	-3	-10
Education, health	73	80	77	70	64
Leisure, hospitality	21	26	11	46	57
Government	60	47	38	60	55
Federal Government	1	3	4	11	9

Source: Haver Analytics

- Hiring cooled in the US in June, with 209K jobs being added, relative to the consensus of 230K, and a 110K negative revision to the prior two-month job tally compounded that slight downside miss. The rest of the report indicated a still tight labor market, as the unemployment rate ticked down to 3.6% as expected, reflecting a 273K gain in jobs on the household survey, while average wages rose by a strong 0.4% m/m, a tick above expectations, and the prior month's pace was revised up to 0.4% from 0.3%. Aggregate hours worked also rebounded by 0.4% m/m, after dropping in three out of the last four months. Overall, the cooling in hiring is a welcome development, but the pace is still above growth in the working-age population, and combined with continued wage pressures and the drop in the unemployment rate, this leaves the Fed on track to hike rates by 25bps in both July and September to reach terminal.
- Job growth was a mixed bag, with health care/social assistance (+65K), and government (+60K) leading the pack. Hiring in those sectors has been aided by investment from state and local governments that are flush with cash, with those levels of government collectively adding 59K jobs in June. There were no clear signs of hiring in cyclical areas

waning, as employment in construction rose, and manufacturing headcounts rebounded. Relative to year-ago levels, headcounts in those industries are still 2.5% and 1.2% higher, respectively, showing that we haven't yet seen the impact of past rate hikes materialize. However, employment in transportation/warehousing and retail trade dropped, which could be an early sign of expectations for slower demand. Temporary help payrolls also dropped off (-12.6K), which has previously been a leading indicator of a broader slowdown in hiring.

- Although job openings fell at the end of May, they remained elevated, with labor shortages still prevalent in many service industries, consistent with higher wages being on offer in June. Average wages remained 4.4% above year-ago levels, well above what would be consistent with on-target inflation. The prime-age (25-54 year old) participation rate increased further, and at 83.5, it is above its pre-pandemic peak of 83.1. That suggests that higher wages are working to attract more workers into the labor force as excess savings have been depleted, and the 0.4% rebound in aggregate hours worked suggests solid income gains in June. Although the rebound in hours worked was concentrated in goods-producing sectors that are higher value-added, over the second quarter, aggregate hours were up by only 0.1% annualized, a deceleration from 2.4% annualized in the first quarter.
- The household survey, which is more volatile and less reliable on a month-to-month basis, showed a partial rebound of 273K jobs in June, and that left the unemployment rate lower at 3.6%. The broader U-6 measure of unemployment, which accounts for those working part-time for economic reasons, rose by two ticks to 6.9%, leaving it at the highest level seen since August 2022. That reflected an increase in those who had hours cut due to slack business conditions.

Implications & actions

Re: Economic forecast — The slowdown in hiring suggests that the labor market is coming into better balance, and was implied by the decrease in job openings at the end of May. Still, the drop in the unemployment rate and strong wage growth will keep the Fed on track for a 25bp hike in July. Although hours worked bounced back in June, the quarterly pace slowed sharply, and if continued, that would be consistent with the Fed moving onto the sidelines after delivering a final 25bp hike in September.

Re: Markets — Bond yields decreased initially as hiring was softer than expected, especially after the upside surprises seen in the ADP and ISM services reports earlier in the week, but the move wasn't sustained, as this report won't sway the Fed from hiking in July, given persistent wage pressures and the drop in the unemployment rate.

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