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November 4, 2022

US Labor Market: Jobs aplenty, just when we don't want them

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Employment change (thousands, unless otherwise noted)	Oct 22	Sep 22	Aug 22	Jul 22	Jun 22
Unemployment rate (%)	3.7	3.5	3.7	3.5	3.6
Avg. hrly earn all (Monthly % Chg)	0.4%	0.3%	0.3%	0.5%	0.4%
Avg. wkly hour all (Monthly % Chg)	0.4%	0.3%	0.3%	0.5%	0.1%
Nonfarm employment	261	315	292	537	293
Total private	233	319	233	448	346
Goods-producing	33	48	43	63	43
Construction	1	22	9	21	10
Manufacturing	32	23	36	37	25
Priv. Serv providing	200	271	190	385	303
Wholesale trade	15	12	15	16	10
Retail trade	7	-8	29	16	22
Transp. & Warehousing	8	-11	-2	18	16
Information	4	7	7	16	26
Financial	3	1	9	7	5
Business services	39	52	29	84	90
Temporary help	12	13	-1	13	7
Education, health	79	91	82	122	94
Leisure, hospitality	35	107	13	89	43
Government	28	-4	59	89	-53
Federal Government	6	3	0	8	-12

Source: Haver Analytics

- The Fed is looking for signs of a cooling in the labor market, and the October data didn't deliver much on that front. The 261K jobs gained were well above the consensus expectation of 193K, and a +29K revision to the prior two-month job tally added to the upside. Hiring was fairly widespread across industries, with health care, professional services, and manufacturing seeing notable gains. Wage growth accelerated slightly to 0.4% m/m (vs. 0.3% m/m consensus), and while a 328K drop in employment on the household survey sent the unemployment rate up two ticks to 3.7% (vs. 3.6% expected), that still leaves it at a level last seen in August. Today's data still justifies another outsized rate hike at the December FOMC, and suggests that the ceiling on the fed funds rate range could reach 5.0% in early 2023.
- The rise in the unemployment rate left it two ticks above its pre-pandemic level, and the increase was limited by a slight drop in the participation rate, including in the prime-age group (25-54 years). The employment-to-population ratio in the latter age group is only a hair below its pre-pandemic level, suggesting that there is little room for further

outsized gains without pressuring wage inflation. The broader U-6 measure of unemployment, which accounts for those marginally attached workers and those working part-time for economic reasons, ticked up to 6.8%, which still leaves it below its pre-pandemic level, indicating that the labor market is indeed tight even from that broader perspective.

- If you're hunting for signs of a cooling, there was one place for fertile ground. The household survey, while more volatile that payrolls in a given month, is often considered a leading indicator of the payrolls count around turning points in the economy. After stripping out the self-employed to get a measure more comparable to payrolls, including this month's dip, household survey job gains have averaged well below the payrolls survey since April 2022.
- In the payrolls count, the manufacturing sector added 32K jobs, likely supported by the ongoing fading of supply chain issues. That contrasted with an only 1K gain in the construction industry, where higher interest rates are weighing on activity, and that was reflected more in a 9K drop in real estate services payrolls. The aggressive climb in interest rates relative to the only modest drop in interest-sensitive sector jobs seems to confirm that those sectors may have been understaffed at the start of the year, and are now adequately staffed in the face of slower demand. Moreover, employers could be more reluctant to let staff go given the challenges faced with recruiting during the pandemic. Accommodation and food service payrolls rose by 26K, showing that businesses in that sector aren't yet worried about a slowdown in demand at this point, and that leaves payrolls in the sector 927K below pre-pandemic levels still.
- The acceleration in total monthly wage growth included a 0.54% increase in the leisure and hospitality sector, with professional services wage growth just below that, showing that services remain overheated. Wages are 4.7% higher than year-ago levels, which clearly isn't consistent with 2% inflation.

Implications & actions

Re: Economic forecast —While the 3-month moving average trend in payrolls growth is decelerating, it's still miles above where it needs to be to open up slack in the labor market to make 2% inflation attainable next year. This release validates Powell's hawkish tone earlier in the week, and suggests that officials will have to get the ceiling on the fed funds rate range up to 5.0% to cool activity. Admittedly, that's now a lot higher than we thought only a quarter or two ago, but we have to acknowledge that, even on a smoothed basis, the US labour market data has been stronger than we anticipated, and the Fed wants to see some signs of slack opening up before being comfortable that core inflation measures will decelerate.

Re: Markets — Yields increased and the USD strengthened temporarily following the upside surprise.