ECONOMIC UPDATE

REGIONS

May 5, 2023

April Employment Report: Labor Market Still Tight But Cooling; Both Can Be True

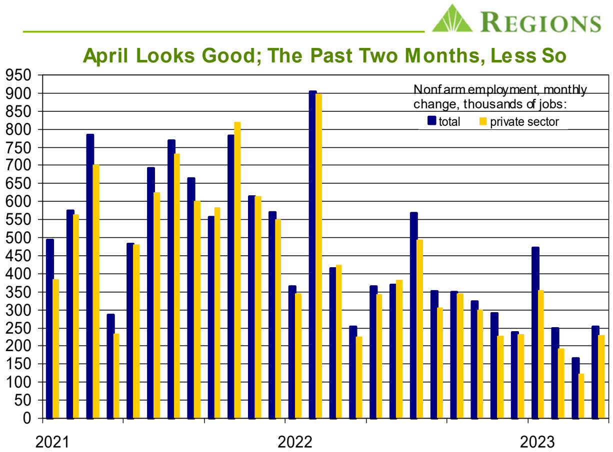
- Nonfarm employment rose by 253,000 jobs in April; prior estimates for February/March were revised down by 149,000 jobs
- Average hourly earnings rose by 0.5 percent, while aggregate private sector earnings rose by 0.7 percent (up 6.7 percent year-on-year)
- The unemployment rate fell to 3.4 percent in April (3.394 percent, unrounded); the broader U6 measure fell to 6.6 percent

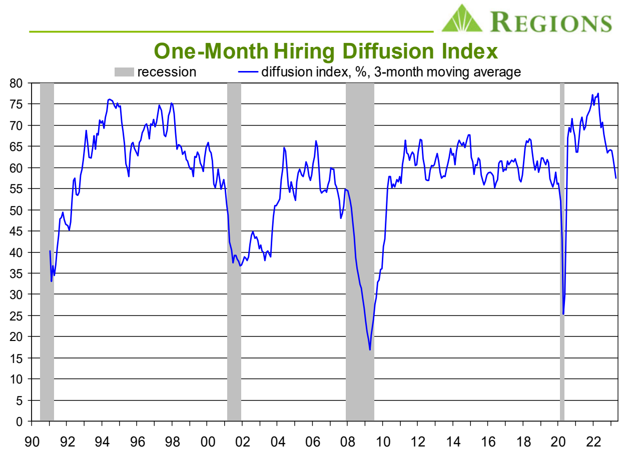
Total nonfarm employment rose by 253,000 jobs in April, topping our forecast of 146,000 jobs and the consensus forecast of 180,000 jobs. At the same time, however, prior estimates of job growth for February and March were revised down by a net 149,000 jobs for the two-month period, which leaves the level of nonfarm employment below where our forecast would have put it. To put our below-consensus forecast into some context, April tends to see a larger increase in not seasonally adjusted employment than any other month of the year, and we expected to see smaller than normal increases this year, particularly in leisure and hospitality services, construction, and retail trade. All of which proved to be the case, but the downward revisions to the data from the prior two months meant the seasonal shortfalls in April hiring were narrower than we had anticipated. On net, then, the labor market doesn't look all that different than we expected it would, i.e., still tight but with the pace of job growth slowing. At the same time, job growth has become less broadly based over the past three months; while the slowing pace of job growth is not at all alarming, the narrowing base of hiring merits attention. Average hourly earnings rose by 0.5 percent, good for a 4.4 percent year-on-year increase; while the former is what caught people's eyes this morning, the latter is smaller than the increases seen over the prior several months. The unemployment rate fell to 3.4 percent, though that reflects a modest decline (down by 43,000 persons) in the size of the labor force, while the broader U6 measure, which also accounts for underemployment fell to 6.6 percent in April thanks in part to fewer people involuntarily working part-time. We'll say the same thing we said in this very space a month ago, which is that while there are signs of cooling labor demand, the labor market is by no means about to roll over.

The one-month hiring diffusion index, a gauge of the breadth of hiring across private sector industry groups, ticked up to 57.4 percent in April from 57.0 percent in March, but March was originally reported at 60.2 percent. The downward revision in the hiring diffusion index is consistent with the downward revision in the estimate of March job growth (now pegged at 165,000 jobs, rather than 236,000 jobs), but the more relevant point is that job growth has been meaningfully less broad based over the prior three months than had been the case. Though not yet to the point of worry, a steadily narrowing base of hiring suggests less staying power for any expansion, so this metric bears watching. In April, job growth was led by education and health services (+77,000), business services (+43,000), and leisure and hospitality services (+31,000). The downward revisions to the prior two months were largely concentrated amongst the private sector service providing industry groups. While much, way too much to be precise, was made about the decline in construction payrolls in March, those parroting the "look what the Fed has done to the housing market" line missed the fact that on a not seasonally adjusted basis construction payrolls rose in March after having held up better than is typically the case in February thanks to unusually mild winter weather. Off of the better than typical February and March base, a smaller than typical April increase in unadjusted construction payrolls was to be expected, which is what happened. Unadjusted construction payrolls rose by 172,000 jobs but, at 2.25 percent, that was a smaller than normal April increase, hence the meager increase of only 15,000 jobs in the seasonally adjusted data. To be sure, higher mortgage rates have hurt home sales, but notably large order backlogs have preserved construction jobs and that will remain the case for some time to come, particularly with new home sales showing signs of life.

The decline in the labor force should be taken with a grain of salt. We noted in our weekly *Economic Preview* that April can be a weird month in terms of the household survey data, and as if on cue the number of males between the ages of 16 and 24 in the labor force is reported to have fallen by 343,000 in April which is, you know, weird and not at all plausible. Of far more relevance, the participation rate amongst the 25-to-54 year-old age cohort, the "prime working age" population, rose to 83.3 percent, the highest since March 2008, though further, sustained increases seem less, not more, likely.

We think slowing trend job growth, rather than the jump in April, is more reflective of a still tight but cooling labor market. Both can be true.





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