# EDITORIAL



## THE US LABOUR MARKET: A SLOW PUNCTURE

**According to the latest indicators, the US labour market continues to progressively slow down. The pace of both job creation and wage growth remains high. The unemployment rate has fallen slightly, whilst the participation rate has increased. Hiring difficulties remain acute, according to the falling but still very high ratio of unfilled job vacancy per unemployed person. The picture painted by confidence surveys is mixed. The gradual nature of the labour market's slowdown allows the Fed to continue its monetary policy tightening. A further – and probably final – 25bp increase in Fed Funds rates is expected in May.**

What does the US labour market tell us about the slowdown of the economy? Does it strengthen or challenge expectations of a new (and final?) hike in the Fed Funds rates at the Federal Reserve's next meeting on 2 and 3 May? The strong performance of the US labour market has played an essential role so far in the resilience of growth and inflation, in the face of monetary tightening, in particular through wage dynamics. The publication of the employment report for March, alongside a series of other labour market statistics, represents an opportune moment for an update.

The overall message is that the slowdown is clearly continuing, while remaining progressive. The 12-month moving average of non-farm payroll jobs' gains illustrates well this gradual deceleration: it fell from around 600,000 new jobs in the spring of 2022 to 350,000 in March 2023 (Chart 1). However, the 236,000 jobs created in March still represents a very high monthly rate, compared to a monthly average of around 185,000 over the previous three cycles[1]. Among the sector details that caught our attention, we would highlight the loss of jobs in the construction sector in March. The figure was not substantial (-9,000), but such a negative print had not been seen since May 2021. Moreover, this could prove to be the first of a (long?) series given the other negative signals appearing in the US real estate market. These losses pushed the goods sector as a whole into the red (-7,000) for the first time since April 2021. In services, retail stood out, with a return to job losses (-15,000) after three positive months.

Over the past year, the unemployment rate slightly oscillated around a historically low level of around 3.5%; it fell in March. Although this was only a small decline (-0.1 of a point), it represented a strong positive signal in current circumstances, all the more so as it was based on faster growth in employment than in the labour force.

Another positive signal came from the participation rate, which has resumed its rise since December 2022: although still well below its high of the late-1990s, at 67%, it is now closing in on its pre-Covid level of 63%. If this increase continues, hiring difficulties and the ensuing pressure on wage growth should ease, helping the Fed as it tries to tackle inflation.

[1] 1991-2001, 2001-2007, 2010-2019.

UNITED STATES: HIRING PACE

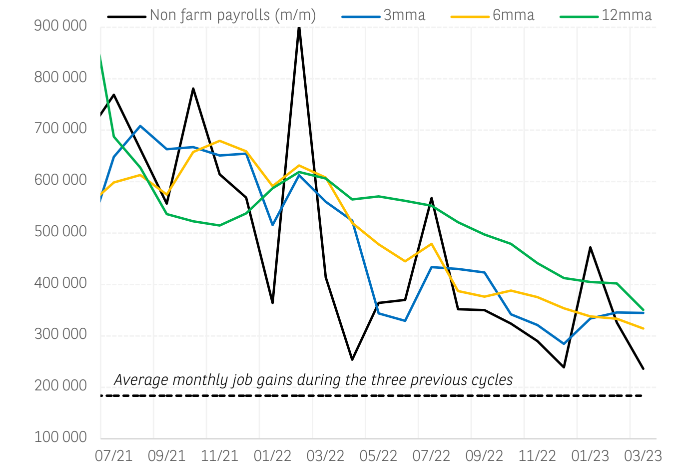


CHART 1 SOURCE: BLS, MACROBOND, BNP PARIBAS

Having fallen in February, the ratio of unfilled job vacancy per unemployed person nevertheless remains very high, suggesting that significant recruitment difficulties persist (Chart 2). One less favourable consequence of a higher participation rate is that it can contribute to a more significant rise in the unemployment rate in the coming months, against the current background of slowing job creation. For the time being, the unemployment rate has merely ceased to fall. However, on a year-on-year basis, this fall is now virtually nil, a trend that will need to be watched as it could turn into a recessionary signal. Historically we have seen a correlation between the US economy going into recession and an increase of at least half a point in the unemployment rate over one year (more specifically in its 3-month moving average, see Chart 3).

> The latest indicators on the US labour market confirm that it is slowing but not to an extent that will deter the Fed from hiking the Fed funds rates by a further quarter-point at its next meeting in early May. The slowdown remains gradual, while job creation and wage growth continue to run at relatively high levels.

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The picture painted by confidence surveys is mixed. Most notably, the 'employment' component of ISM surveys deteriorated in March: -2.2 points, to 46.9, in the manufacturing sector and -2.7 points, to 51.3, in the non-manufacturing sector. Moreover, according to the National Federation of Independent Business (NFIB) survey, the net percentage of small firms planning to expand employment has fallen sharply since mid-2021. Given the high starting point, this trend represents some kind of return to normal, and should not necessarily cause concern. However, the level reached in March (15%) corresponds to the figure seen at past cyclical peaks, prior to the onset of recession. Human resource managers questioned by the Conference Board at the beginning of the year nevertheless displayed continued confidence about prospects for recruiting and retaining workers over the next few months[2]. Household sentiment also remains relatively positive: in March some 50% of respondents said they believed jobs were plentiful, with only 10% seeing jobs as hard to get (this is historically high for the former measure and low for the latter).

Lastly, like employment, wages are seeing slower but still strong growth (Chart 4). The slowdown is more marked according to the BLS measure of nominal average hourly pay (which was growing at nearly 6% y/y in March 2022 but had slowed to 4.2% in March 2023) than according to the Atlanta Fed's wage tracker (which peaked at 7% y/y in June 2022 and had slowed to 6.1% in March 2023). We would nevertheless note that behind this fairly limited deceleration there has been a significant difference in wage growth between 'job stayers' (bouncing back in February) and 'job switchers' (marked slowing).

Taken together, these trends confirm the slowing of the US labour market – and, behind this deceleration, the role and effectiveness of the Fed monetary tightening – but not to an extent that will deter the central bank from hiking the Fed funds rates by a further quarter-point at its next meeting in early May. The slowdown remains gradual, with job creation and wage growth continuing to run at relatively high levels.

Using an automobile metaphor, the US economy would be a car the labour market its four tires. Overinflated, they burst under the effect of the monetary tightening. At first, the puncture is slow and controlled but the full stop of the car, due to the flat tires, seems inevitable. The challenge for the Fed is to ensure that the tires are not too badly damaged and the stop is as short as possible and enough to stem inflation. In the meantime, the Fed's decision will also take other factors into account, and may give them even greater weight, most notably April's Senior Loan Officer Opinion Survey (SLOOS) on lending conditions and what it says about the scale of tightening in this area.

**Hélène Baudchon**

2 Survey: HR Leaders Are Confident About Hiring and Retaining (conference-board.org), 4 April 2023

UNITED STATES: UNFILLED JOB VACANCY PER UNEMPLOYED PERSON

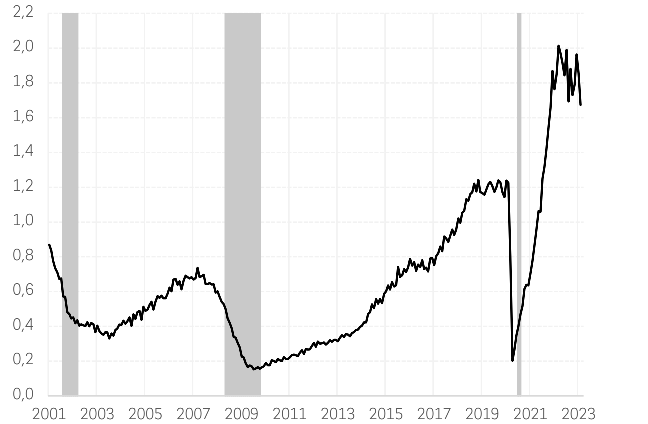


CHART 2

SOURCE: BLS, MACROBOND, BNP PARIBAS

UNITED STATES: UNEMPLOYMENT RATE AND RECESSION

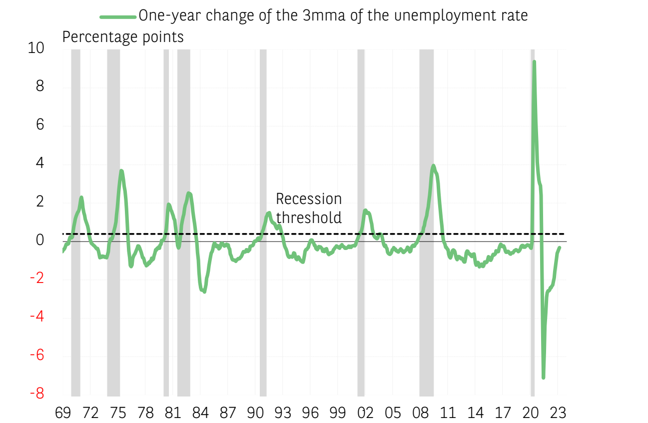


CHART 3

SOURCE: BLS, MACROBOND, BNP PARIBAS

UNITED STATES: WAGE GROWTH TRACKER AND AVERAGE HOURLY EARNINGS

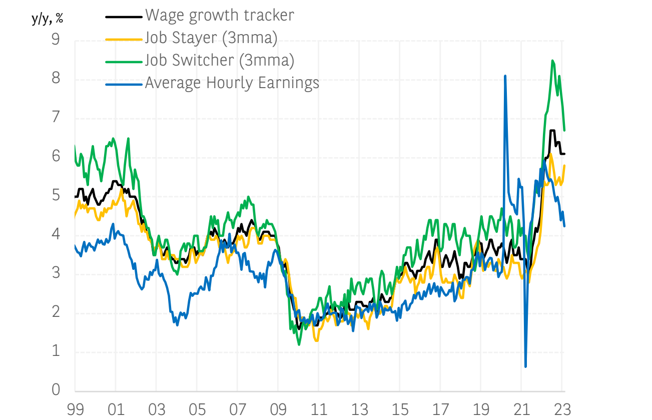


CHART 4

SOURCE: BLS, FED OF ATLANTA, MACROBOND, BNP PARIBAS