Datanote: Employment, April

In one line: Soft all round, and likely weaker numbers ahead

- April payrolls rose 175K, below the consensus, 240K. The net revision was -22.
- The unemployment rate rose a tenth to 3.9% from 3.8%, marginally above the consensus, 3.8%.
- Average hourly earnings rose 0.2%, a tenth below the consensus, 0.3%. The

net revision was -0.03%.

The headline comprises a 167K increase in private jobs, the smallest since last November, and a mere 8K increase in government jobs, the smallest since December 2022. The consensus forecast for the latter, 47K, always looked odd. Government employment overshot in March, up 72K, likely due to favourable weather, and a correction in April was a good bet. The correction turned out to be even bigger than we expected, and the trend in government hiring appears to be slowing.

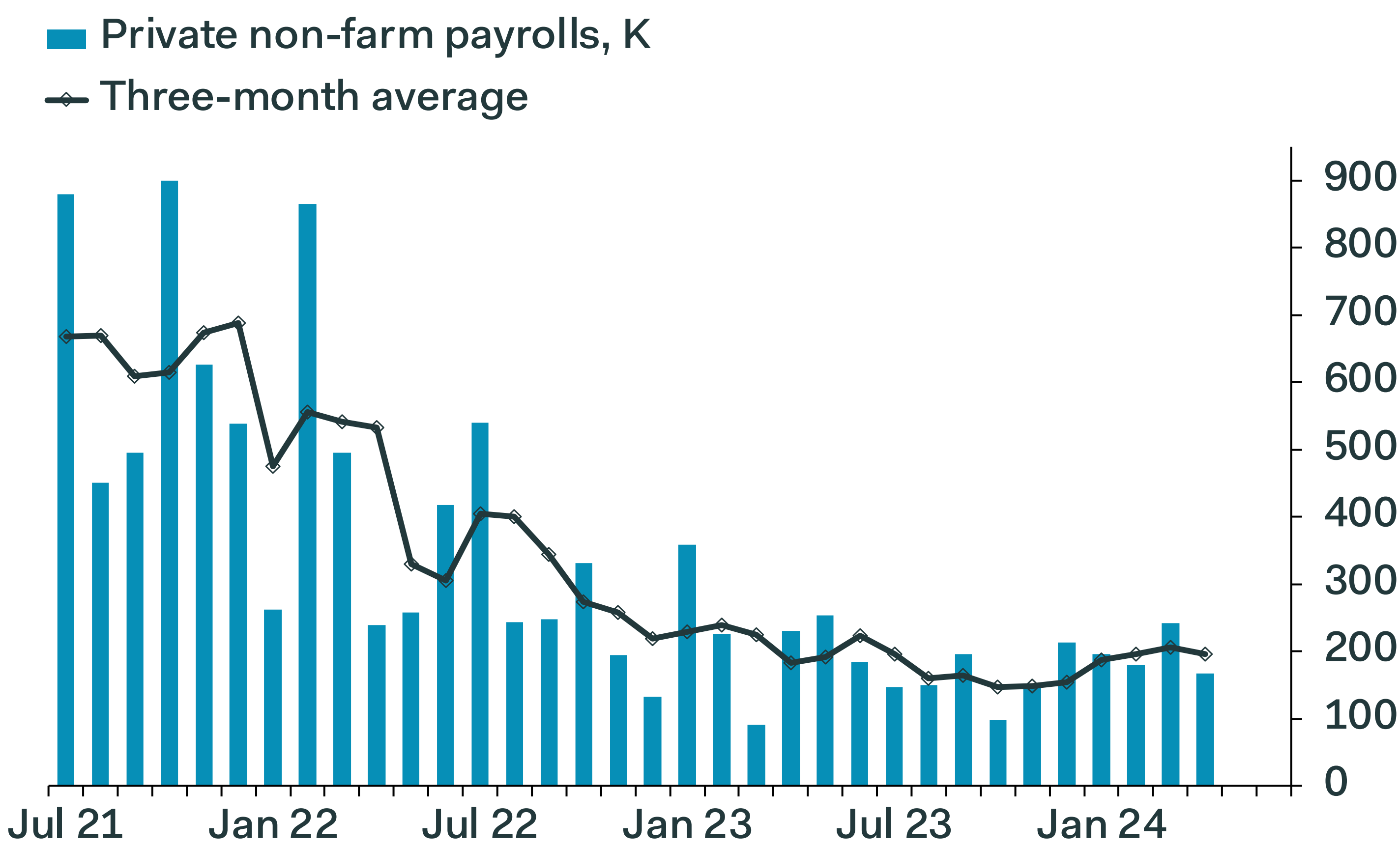
In the private sector, the slowdown in job growth is spread across both goods and services. Construction job gains slowed to just 9K from 40K in March, but again this likely reflects the unwinding of a favourable weather effect. That might also be part of the story in leisure and hospitality, up only 5K after an above-trend 53K in March. But the slowing in job gains is not just a weather effect, in our view, because it is consistent with the sustained rollover in NFIB hiring intentions, which points to private sector job growth slowing steadily to about minus 50K per month by July, implying zero headline prints, at best. Businesses - especially small firms - are responding to the lagged effect of the huge increase in interest rates and the tightening in lending standards, which have made working capital much more expensive and harder to obtain. At the margin, this is depressing hiring and lowering the bar to layoffs.

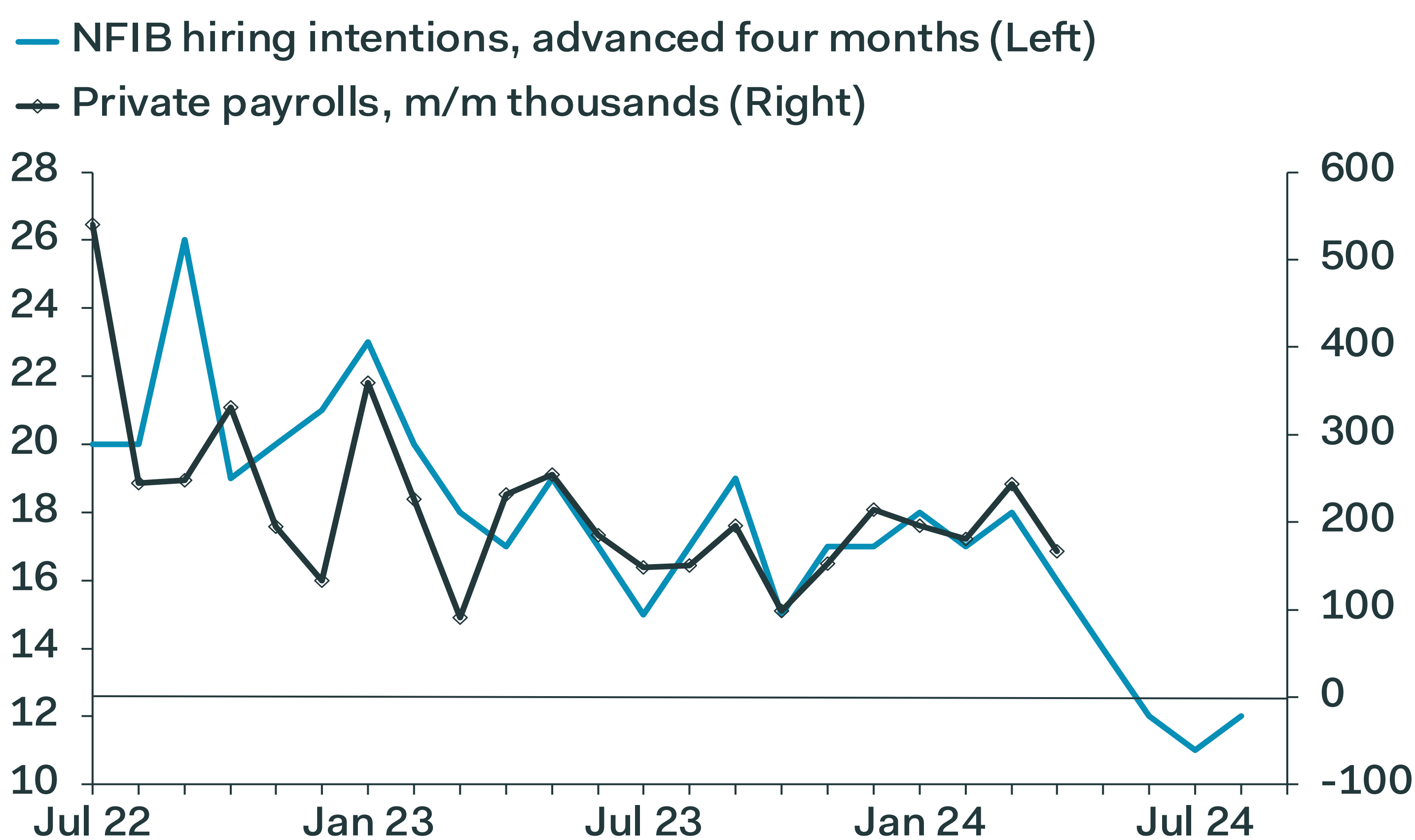
Note too that the we expect the April number to be revised down. The long-term decline in the response rate to the payroll survey means that the initial estimates for each month are nothing more first approximations. Most revisions over the past year have been to the downside, consistent with the idea that smaller firms, which are under the greatest pressure from tight monetary policy, are responsible for much of the decline in the initial response rate. After badgering from the BLS, the response rates for the second and third estimates are much higher, and the latter has declined by only about four percentage points since the 2015 peak, while the first round response rate has dropped by 13pp over the same period. In April, the 54.9% response rate is the lowest for the month in 22 years, and a startling 16pp lower than in April last year.

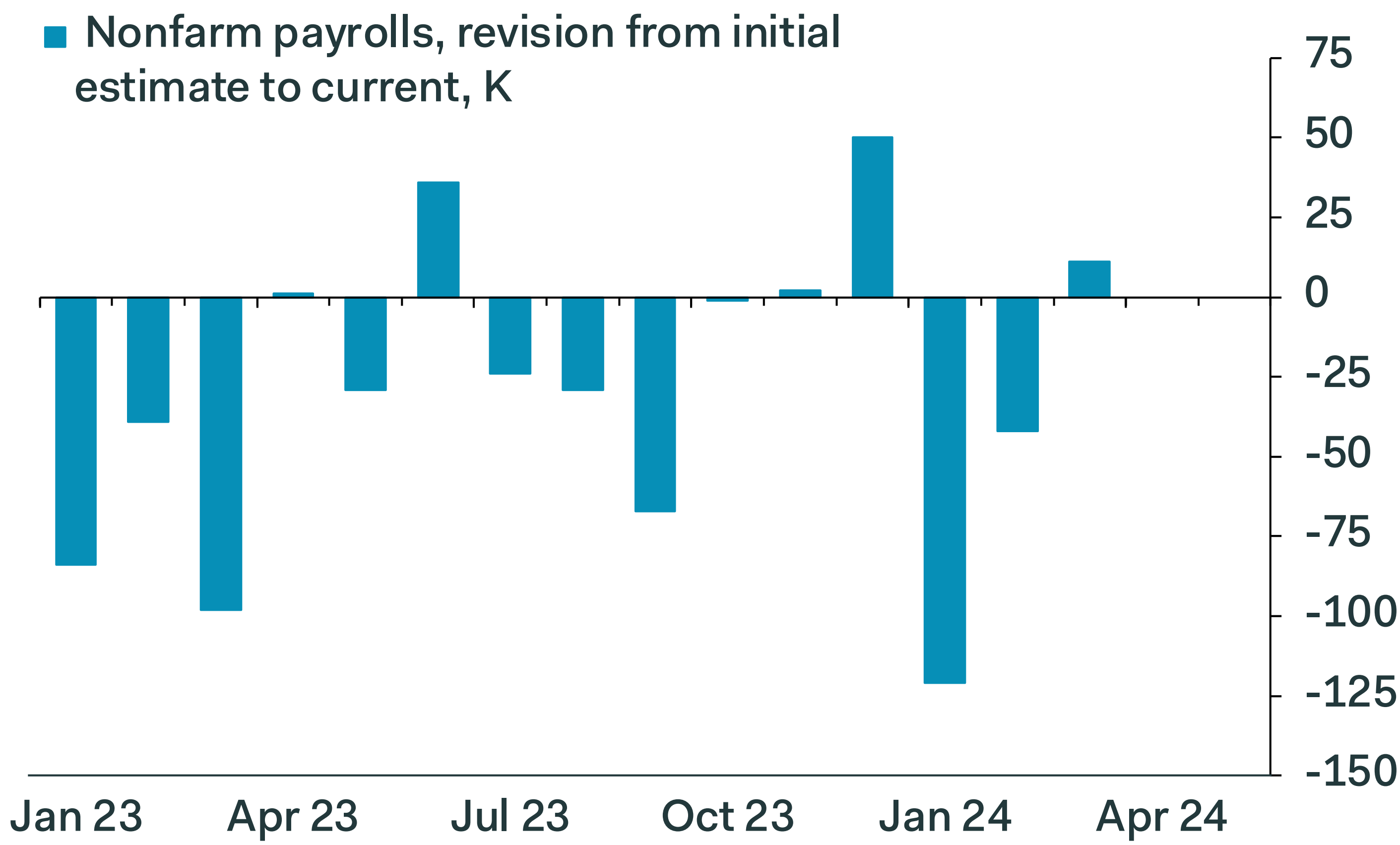
The trend in wage growth continues to slow, though the monthly numbers are noisy and subject to revisions. It's also possible that the low 0.2% April print marks the return of a pre-Covid calendar quirk, in which wage gains are under-reported in months when the 15th - payday for people paid semi-monthly - falls on the Monday or Tuesday after the survey week. Either way, wage gains tend to track the quits rate, which is below its pre-Covid level and still falling. Our chart suggests that AHE growth is likely to be just 3.5% or less by the end of the year, consistent with the inflation target unless you expect productivity growth to slow markedly.

The reported changed in the key numbers in the household survey - employment, unemployment, and participation - were statistically insignificant, as usual. Over the past year, though, the downswing in full-time job growth and the surge in part-time points to weaker payroll growth, consistent with the message from the NFIB survey and the composite PMI employment index.

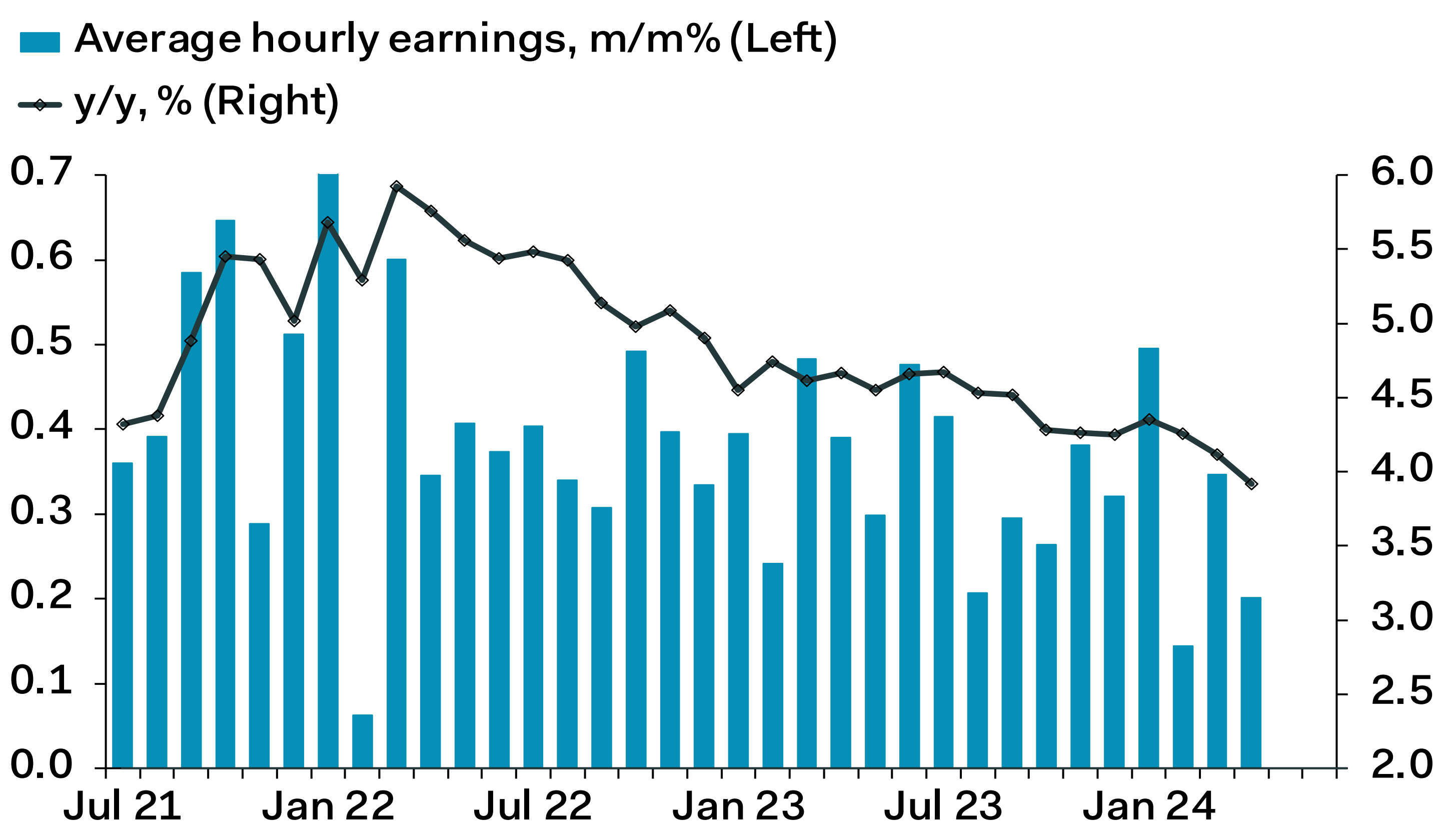
This report is nothing like bad enough to trigger a wholesale rethink at the Fed, but things will be different if the July numbers are weaker still, as we expect. The downshift in payroll growth has come exactly when the NFIB suggested it would, and the signal for the future is unambiguous. We stick to our forecast of 100bp easing this year, starting in September.


Private non-farm payrolls, K
Three-month average
900
800
700
600
500
400
300
200
100
0
Jul 21
Jan 22
Jul 22
Jan 23
Jul 23
Jan 24

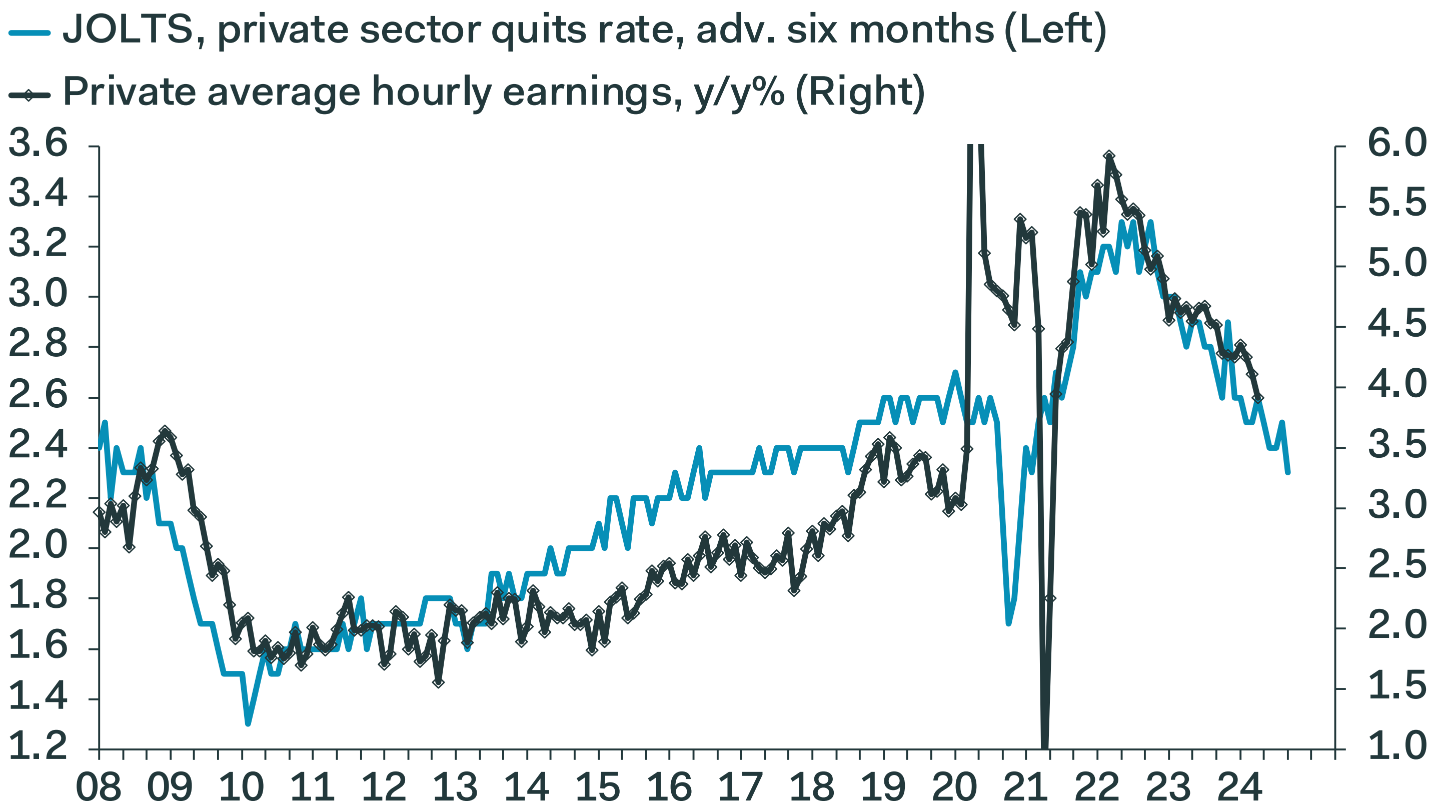

NFIB hiring intentions, advanced four months (Left)
Private payrolls, m/m thousands (Right)
28
26
24
22
20
18
16
14
12
10
600
500
400
300
200
100
0
-100
Jul 22
Jan 23
Jul 23
Jan 24
Jul 24



Nonfarm payrolls, revision from initial estimate to current, K
75
50
25
0
-25
-50
-75
-100
-125
-150
Jan 23
Apr 23
Jul 23
Oct 23
Jan 24
Apr 24



Average hourly earnings, m/m% (Left)
y/y, % (Right)
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0.0
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
Jul 21
Jan 22
Jul 22
Jan 23
Jul 23
Jan 24


JOLTS, private sector quits rate, adv. six months (Left)
Private average hourly earnings, y/y% (Right)
3.6
3.4
3.2
3.0
2.8
2.6
2.4
2.2
2.0
1.8
1.6
1.4
1.2
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24