Yet Another Surprisingly Robust Labor Market Update

Hiring Remains Strong Even As Unemployment Ticks Up

By Christine Cooper and Phil Mobley

Employment growth was surprisingly strong in May, as employers added 272,000 jobs, according to the federal Bureau of Labor Statistics. This was far above consensus expectations of 180,000 in a market that had shown signs of cooling.

Revisions to earlier months brought figures for those periods lower by 15,000. At the same time, the unemployment rate rose to 4%, its highest level since the beginning of 2022.

Wall Street reacted quickly to Friday's report, with equity markets falling and Treasury yields surging. Investors are waiting for clear signs the economy is on its way to solid footing with stable prices — the much-desired "soft landing"— that would clear the way for the Federal Reserve to embark upon a rate-cutting program. This latest jobs report instead offered the prospect of continued strong hiring with the potential for wage gains that could push prices higher again.

The economy's recovery from the pandemic has not been even. Some sectors have rebounded faster than others and more quickly than their pre-pandemic average. Among the larger economic sectors, construction, professional services and healthcare jobs have proliferated since the sharp drop in early 2020, continuing a longer-term trend of relatively fast growth in these sectors. Meanwhile, a pre-existing trend of slower job growth has returned to government, manufacturing and retail trade.

The accommodation and food services sector, which accounts for about 9% of the nonfarm labor force, has yet to recover its pre-pandemic workforce. More than 85% of workers in the sector are in bars and restaurants, which have yet to recover fully or are moving to delivery services. Moreover, although measures such as airport security screenings suggest that much travel has recovered, hotels and motels are still struggling to find workers, given their reluctance to return to these jobs.

Another group of workers who have been slow to return to the labor force is those 55 and older. For about a year, the employment-to-population ratio among prime-age workers, or those 25 to 54, has hovered near its multidecade high, just below 81%. Even members of Generation Z, or those 16 to 24, are more likely to be employed than their millennial counterparts from 10 years ago.

Older workers, however, have still not fully returned to the labor force. Just over 37% are employed, compared with about 39% in 2019. The pandemic has brought a wave of early retirements, and the challenges of re-entering the workforce and the continued aging of the existing workforce could see this share slide even lower.

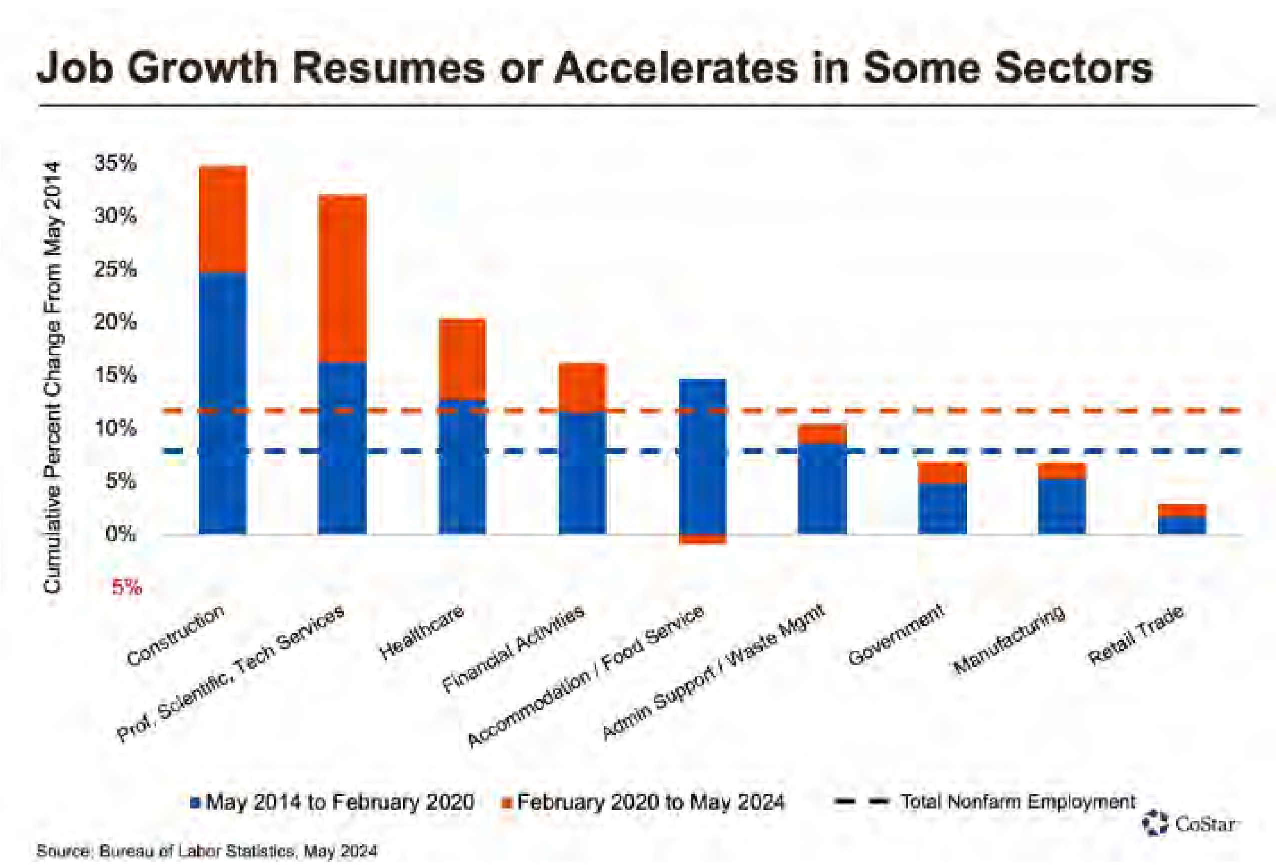
A smaller labor force resulting from the absence of older workers also may contribute to solid wage growth. The employment report showed a 4.1% year-over-year increase in hourly wages, above consensus expectations of 3.9%.

Wages and prices generally tend to move together, though that relationship faltered in 2020 because the massive layoffs associated with the pandemic fell disproportionately on lower-wage workers. Given that underlying relationship, fast wage growth raises concerns about inflation.

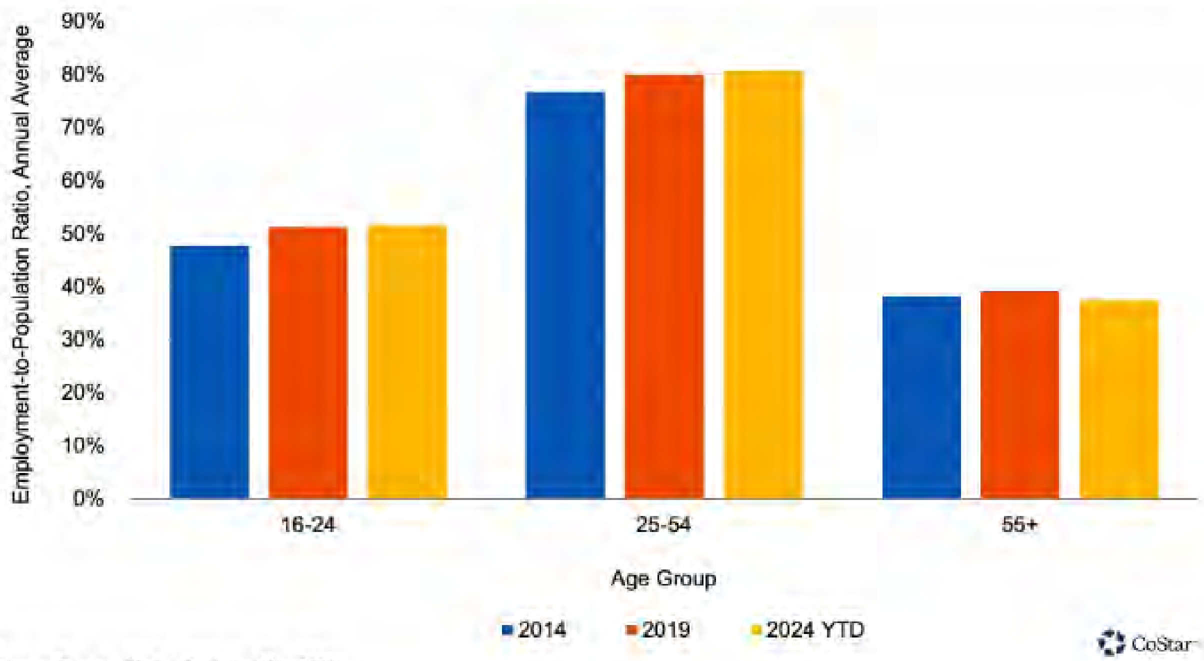
This time, though, there are mitigating factors. One is that average weekly hours worked have eased meaningfully from their elevated levels in 2021 and 2022, suggesting employers are managing costs by limiting hours. Weekly wages, therefore, have risen only 3.8% in the past year.

Productivity gains also lessen the inflationary impact of wage growth. Last week's report from the Bureau of Labor Statistics showed labor productivity rose by 2.9% in the first quarter on a seasonally adjusted annual rate. Excluding the turbulent 12-month period that began in April 2020, this was the fastest rate since the fourth quarter of 2019 and the second-fastest increase of the past decade.

Notably, core consumer prices have trended lower since the beginning of last year despite relatively sticky wage growth. In late 2019, a period of consistent productivity growth, core prices tended to grow at a rate about 100 basis points lower than weekly wages.



Employment Among Younger Workers Is Near Peak, While Some Seniors Are Still Sitting Out



Source: Bureau of Labor Statistics, May 2024

Wage Growth Remains Strong as Core Prices Decelerate

Source: Bureau of Labor Statistics, May 2024