Another Strong Jobs Report Ensures an Upcoming Fed Rate Hike

Labor Force Participation Dips in June

By Christine Cooper and Rafael De Anda

Expectations for last week's June jobs report called for 250,000 positions to be added. Instead, firms added 372,000 positions in June — showing that the Federal Reserve's recent tightening policies have so far had a negligible impact on hiring decisions, keeping the pressure on for more rate hikes.

While sectors tied to the reopening of the economy from the pandemic had been leading gains in recent months, education and health care services added the most jobs in June at 96,000.

Hiring came from hospitals (20,000 jobs), as well as several sectors that drive some of the demand in suburban offices and medical offices such as education services (18,200) and ambulatory health care services (28,200), which includes doctors' and dentists' offices as well as walk-in health care centers and other health practitioners.

Other sectors that typically drive office demand had mixed results. Professional and technical services firms added 42,000 jobs, information firms added 25,000 jobs, but financial firms added just 1,000 jobs.

Consumers continue to shift spending away from physical goods and toward services, driving demand at hotels and restaurants. Employment in the accommodation and food services sector grew by 55,600 jobs in June, roughly the same rate as the prior two months. But hiring has slowed from earlier in the year, when employment grew by roughly 110,000 jobs in January and February, and from 2021, when monthly gains averaged just over 155,000 jobs.

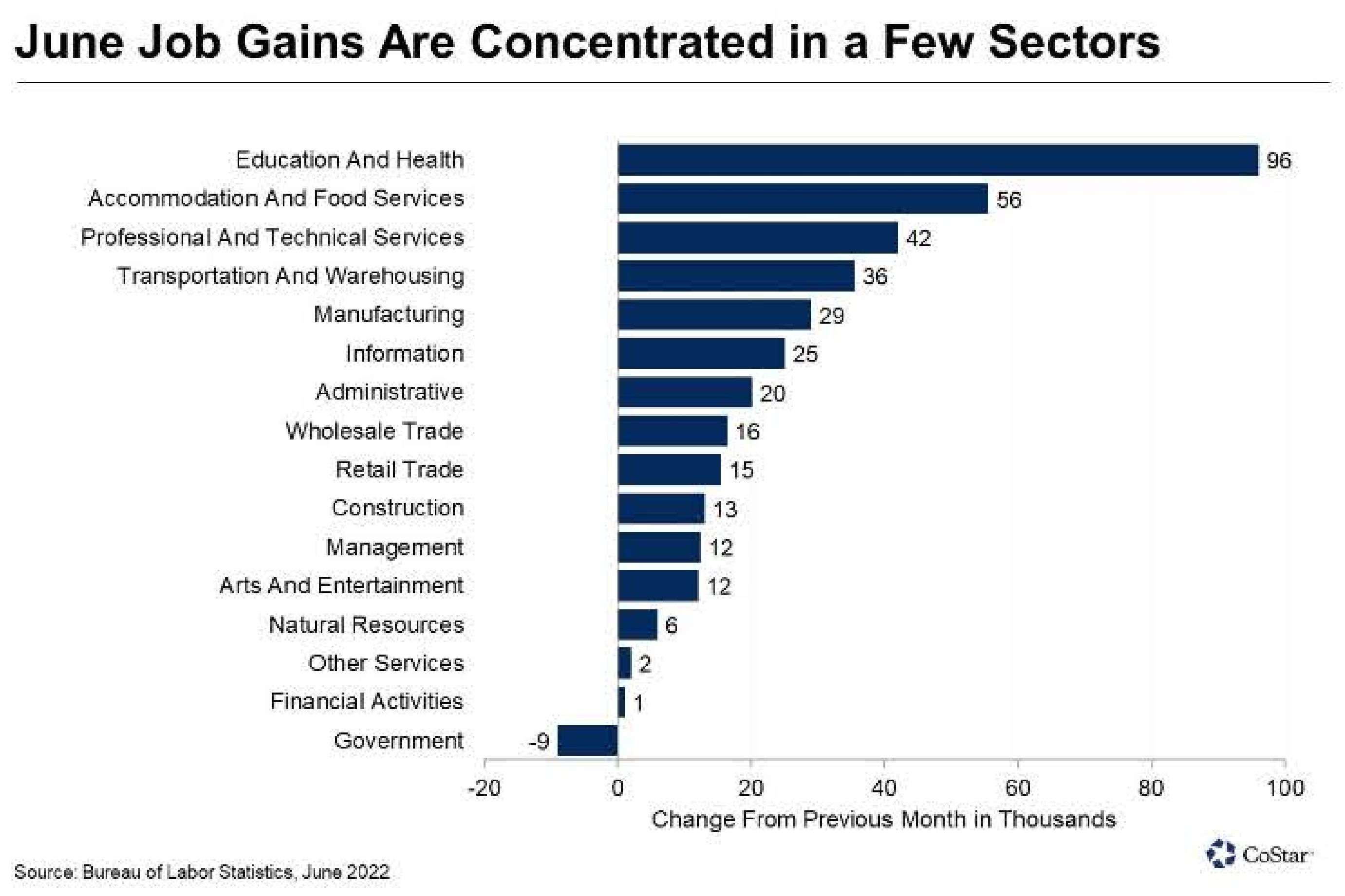
Still, many former workers in these industries have been reluctant to return. Already high, job openings in the sector grew by 5.5% in May to 1.4 million, according to a separate government report, while overall private sector job openings fell by 3.7%. Employment in accommodation and food services remains below pre-pandemic levels by 1.1 million positions — more than any other major sector.

Wages continued to grow, although the pace of growth has been moderating. Average hourly earnings in the private sector grew by 0.3% in June and are now 5.1% higher than a year ago. Yet wage growth has been outpaced by inflation throughout the year because the consumer price index has averaged 0.8% monthly gains in 2022. One exception is for workers in leisure and hospitality, which includes accommodation and food services. The shortage of workers in the sector drove average hourly earnings up 1% in June and 9.1% over the year.

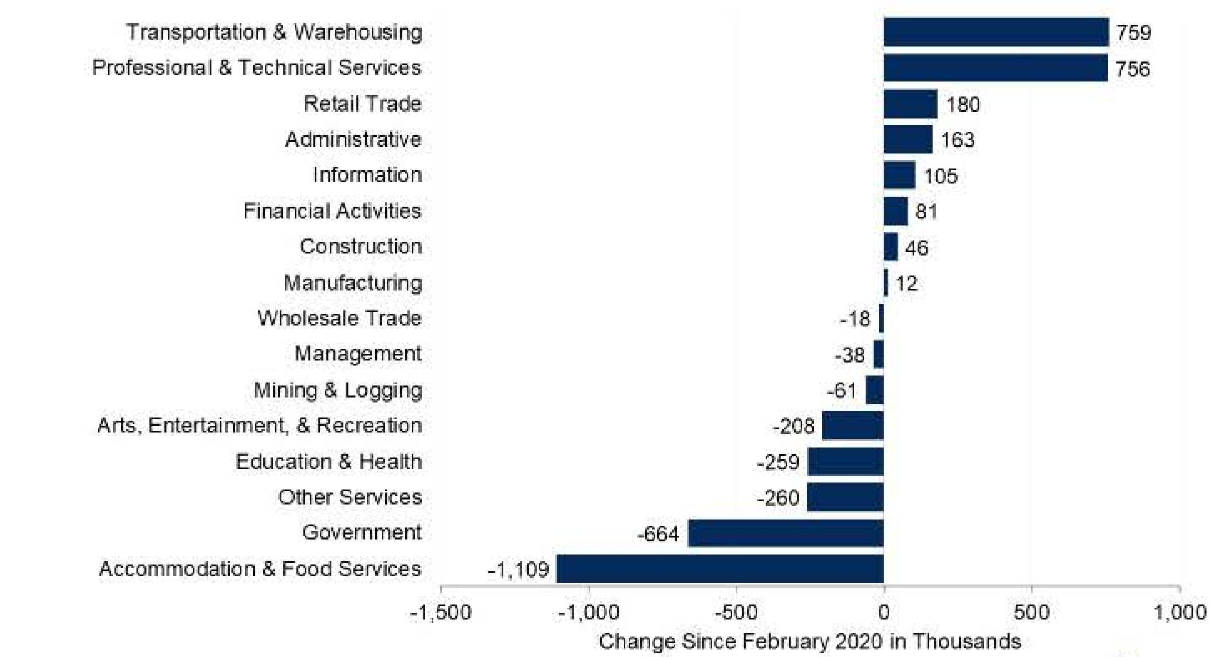
A wage-price spiral is not materializing. In other words, higher inflation is not leading to even higher wages, which in turn can lead to higher prices as firms try to recoup their increasing costs. Still, the combination of higher wages and job growth could induce greater aggregate demand for goods and services, causing inflation to remain above comfortable levels.

According to the Census Bureau's latest household survey, the labor market remains tight. The unemployment rate, which measures the rate of unemployed workers relative to the total labor force, remained 3.6% for the fourth consecutive month, roughly at its pre-pandemic trough.

However, that survey showed that 315,000 fewer people were employed in June than in the prior month, and more than half a million left the labor force entirely, dragging the labor force participation rate to its lowest level since February, despite analysts’ hopes that it would return to pre-pandemic levels. At 62.2%, it appears to have settled to a new normal. If so, that means the many workers who left the labor force early during the pandemic may not be returning. The shrinking of the labor force at a faster rate than the number of people losing jobs keeps the unemployment rate low, which perversely becomes a less valuable indicator of the health of the labor market.



Employment Composition Has Changed Since February 2020



Source: Bureau of Labor Statistics, June 2022

Wages Are Not Keeping Up With Inflation

Sources: Bureau of Labor Statistics, June 2022