US Labor Market Watch

Job creation is easing slowly but steadily

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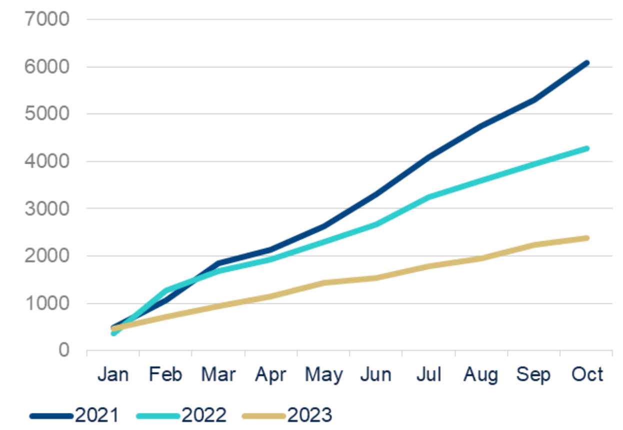
Slower wage growth ahead is likely

- Labor productivity grew 4.7% in the third quarter of 2023, holding the key to understanding the labor market's robustness.
- Regardless of the solid increase in real GDP (4.9% SAAR) in the third quarter, which is consistent with the continued strength of the labor market, a slowdown in the economy is expected to become more evident in the coming months. Lower job creation in October already points to a slowdown.
- Job creation in October (+150K) came in below consensus expectations of 180K, and September's print was revised down slightly. Employment growth was primarily driven by growth in two non-cyclical sectors: government and healthcare & social assistance. The service sector posted a muted 0.1% monthly increase, while the goods-producing sector experienced a 0.1% reduction, with recent strikes in the automotive sector adversely affecting. These losses will be reversed in November with the strike over, but other sectors, such as information and finance, also posted more cyclical declines.
- The unemployment rate rose 3.9%, up 0.1 pp from last month, 0.2 from last October, and 0.4 pp from the minimum reached a few months ago. While this level is one of the highest observed in the last 20 months, it remains 1.9pp below the historical average of the past few decades (2000s). A critical factor contributing to this growth is a decrease in the labor force participation rate, which reached 62.7%, a 0.1pp drop compared to the previous month, representing a reduction of 201 thousand individuals in the labor market.
- The most recent data for job openings in September remained steady at 5.7%. Although this figure continues to be below the average since 2022 (6.4%), it suggests a gradual deceleration of demand in the labor market and points to a labor market that still has room for normalization.
- Regarding wages, year-on-year growth continues to ease after posting a modest 0.1% MoM increase in October to 4.1% (down from 4.3% in August-September). This represents the lowest level since the onset of the pandemic, considering data since January 2022.
- **Bottom line.- with hiring slowing, the gradual supply-demand rebalancing in the labor market continues while wage growth keeps on easing. With job creation off to a weaker start in 4Q, the Fed will likely stay on the sidelines in December.**

Hiring is slowing and is off to a weaker start in 4Q, probably pointing to 3Q-strength fading

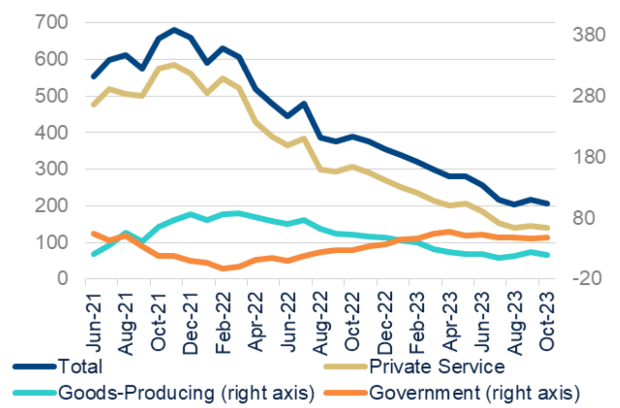
Figure 1. **NONFARM PAYROLL EMPLOYMENT (CUM. THOUS, SA)**



Source: BBVA Research based on data by Haver Analytics.

Growth in non-cyclical sectors is supporting total job gains

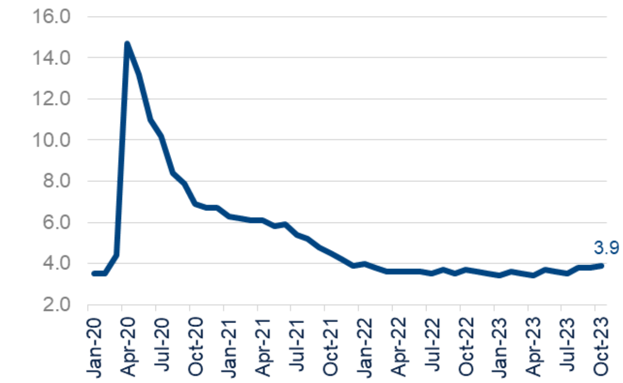
Figure 2. **NONFARM PAYROLL EMPLOYMENT (THOUS, MOVING AVG. 6 MONTHS, SA)**



Source: BBVA Research based on data by Haver Analytics.

The UR remains low, but a turning point is becoming more evident

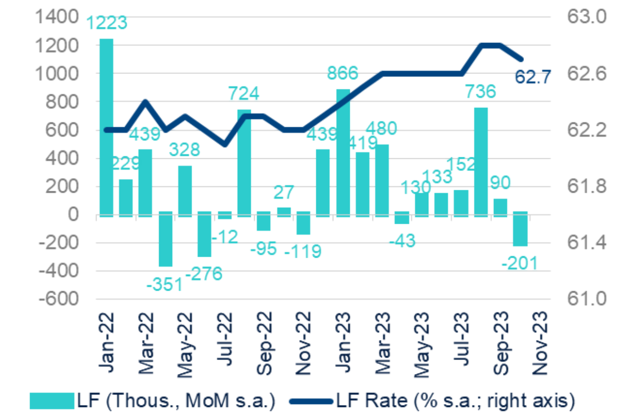
Figure 3. **UNEMPLOYMENT RATE (% OF LABOR FORCE, SA)**



Source: BBVA Research based on data by Haver Analytics.

The labor force declined somewhat in Oct, partially reversing the strong gains in 1Q-3Q23

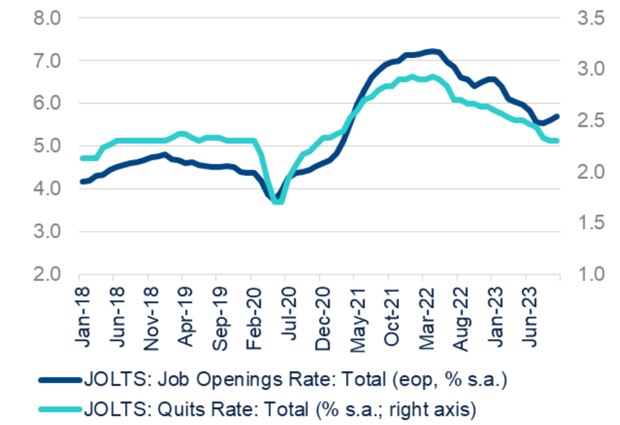
Figure 4. **LABOR FORCE (VARIATION %, SA)**



Source: BBVA Research based on data by Haver Analytics.

Voluntary quits are now at pre-pandemic levels while openings have softened

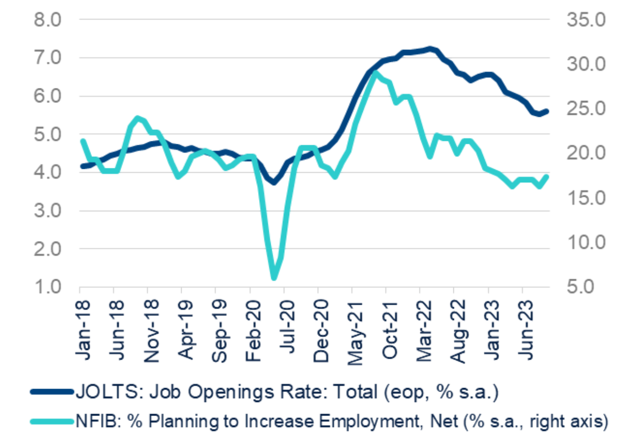
Figure 5. **JOB OPENINGS AND QUITS RATE**
(%)



Source: BBVA Research based on data by Haver Analytics.

Hiring plans suggest that the labor market softening has much further to run…

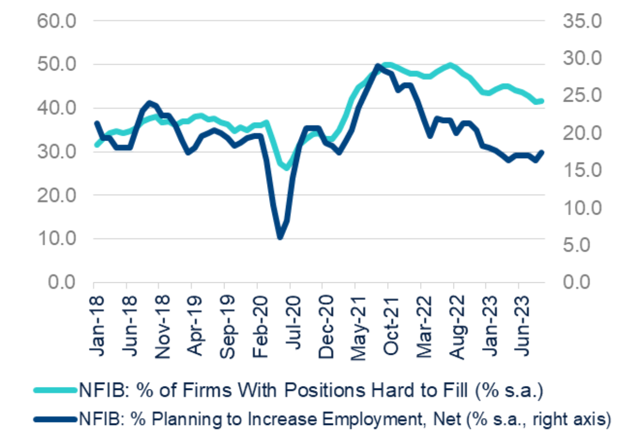
Figure 6. **JOB OPENINGS AND QUITS RATE**
(%)



Source: BBVA Research based on data by Haver Analytics.

… as firms plan to slow hiring

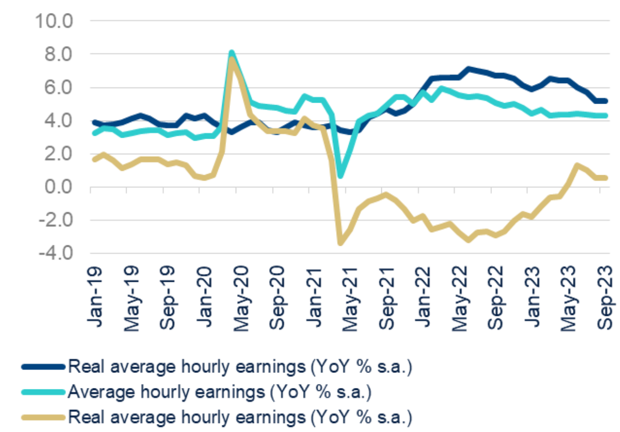
Figure 7. **JOB OPENINGS AND QUITS RATE**
(%)



Source: BBVA Research based on data by Haver Analytics.

The decline in the job quits rate alongside easing labor demand points to slower wage growth ahead

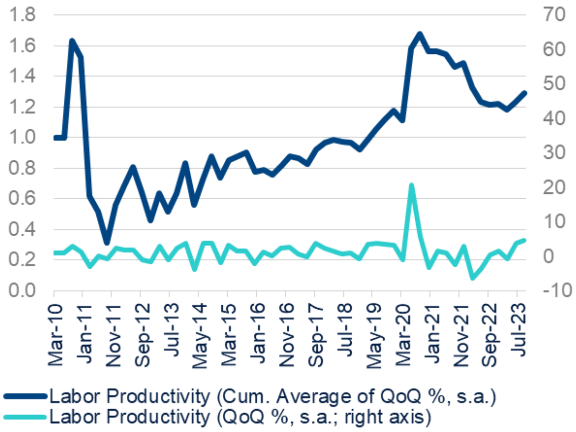
Figure 8. **AVERAGE HOURLY EARNINGS**
(ANNUAL VAR. %)



Source: BBVA Research based on data by Haver Analytics.

Productivity jumped in 3Q

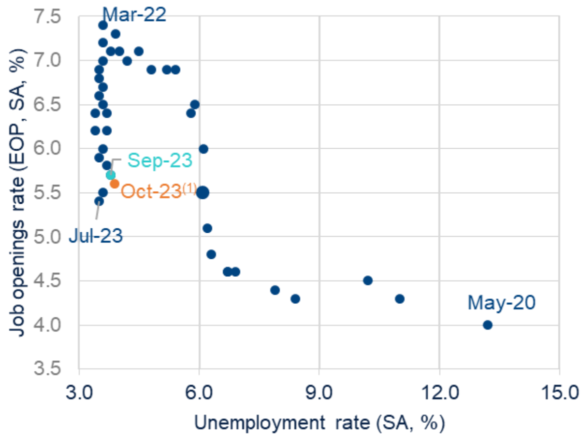
Figure 9. **NONFARM BUSINESS SECTOR LABOR PRODUCTIVITY** (VAR. %)



Source: BBVA Research based on data by Haver Analytics.

Excess demand in the labor market has prevented the UR from rising significantly, but a higher UR ahead is becoming more likely

Figure 10. **THE BEVERIDGE CURVE** (%, SA)



Source: BBVA Research based on data by Haver Analytics.

(1) Forecast

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