

US Labor Market Watch

The labor market is coming into a better balance

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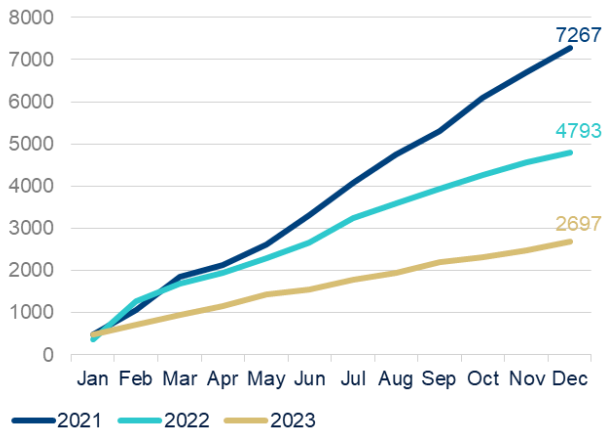
January 10, 2024

Job gains remain solid, but have been boosted by non-cyclical sectors; decline in job openings point to slower wage growth

- Nonfarm payrolls close the year with a gain of 2.7 million jobs, significantly less than last year's gains (Figure 1). This highlights the slower pace of job creation throughout 2023, which has allowed tight conditions in the labor market to gradually ease.
- Although job growth remains solid, December's data is not as strong as the 226K monthly gain suggests (which was nonetheless significantly above the 170K expected). Gains for Oct and Nov were revised down by 71K, and more notably, job gains were again boosted by non-cyclical sectors, with government and social assistance employment rising by 111K. Employment in more cyclical sectors decelerated steadily during 2023 (Figure 2) but, due to its size, still did the heavy lifting last year: 76.6% of the jobs created throughout the year were in the private services sector. Overall, employment grew 1.7% YoY in 2023, 1.5 percentage points less than in 2022.
- The resilience of the labor market and stagnant labor participation have prevented the unemployment rate from increasing. In December, the unemployment rate remained at 3.7%, primarily explained by the reduction of the labor force by 676 thousand people, which brought the participation rate to 62.5%, close to the levels observed at the beginning of the year.
- The job openings rate continues to decrease gradually, reinforcing that the low unemployment rate is mostly associated with a decrease in the labor force participation rate. Additionally, plans to increase employment remain stable and without growth. Yet, hard-to-fill jobs continue to show an upward trend.
- Real wages in November remained positive, with year-on-year growth of 0.9%. Regarding the average hourly earnings, December data showed a 4.1% YoY growth (+0.1pp compared to Nov) after rising 0.4% MoM. Yet, the slowing trend in the labor market and lower job openings point to slower wage growth ahead.
- The labor market still has room for normalization; the rebalancing between supply and demand in the labor market continues while wage growth will remain moderate. In this context and given our economic growth scenario, we continue to expect a moderate increase in the unemployment rate, which we expect to close at 4.6% in the last quarter of this year.

Job demand eased throughout 2023

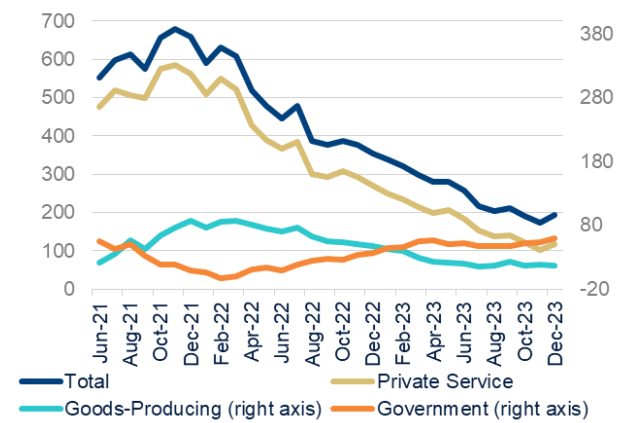
Figure 1. **NONFARM PAYROLL EMPLOYMENT**
(CUM. THOUS, SA)



Source: BBVA Research based on data by Haver Analytics.

Job gains were boosted by non-cyclical sectors during 4Q23

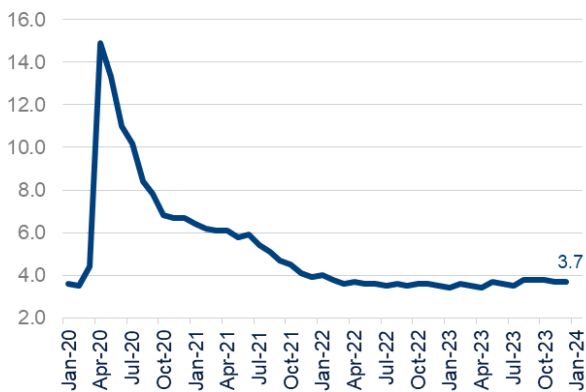
Figure 2. **NONFARM PAYROLL EMPLOYMENT**
(THOUS, MOVING AVG. 6 MONTHS, SA)



Source: BBVA Research based on data by Haver Analytics.

The UR remains close to recent lows...

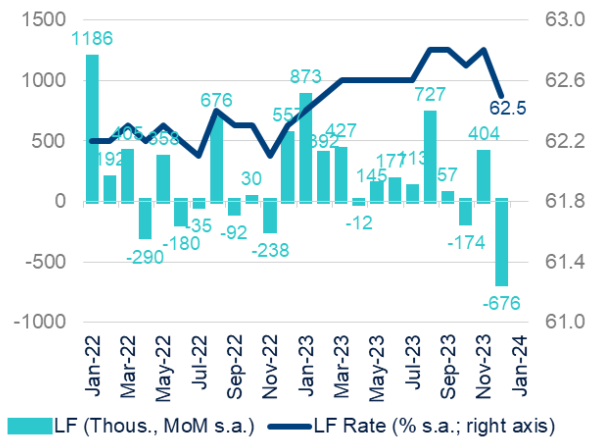
Figure 3. **UNEMPLOYMENT RATE**
(% OF LABOR FORCE, SA)



Source: BBVA Research based on data by Haver Analytics.

... as labor force participation declined recently

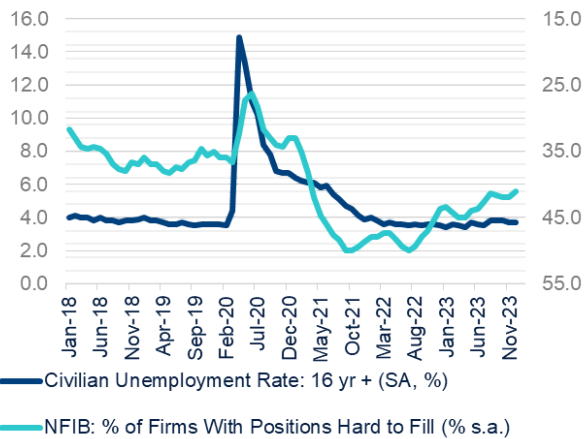
Figure 4. **LABOR FORCE**
(VARIATION %, SA)



Source: BBVA Research based on data by Haver Analytics.

Positions hard to fill are still trending upwards...

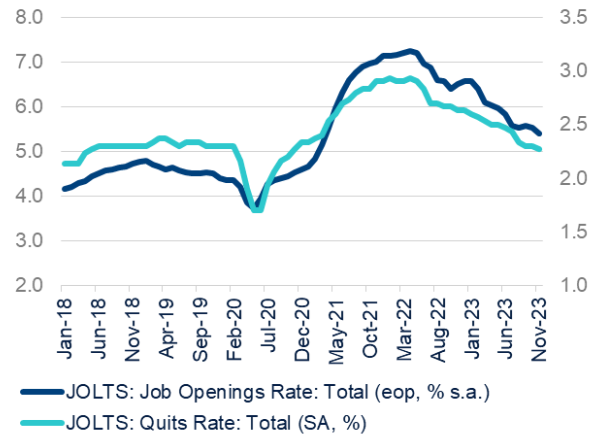
Figure 5. UNEMPLOYMENT RATE AND NFIB: SMALL BUSINESS ECONOMIC TRENDS (%)



Source: BBVA Research based on data by Haver Analytics.

... but lower job openings and voluntary quits point to slower wage growth ahead

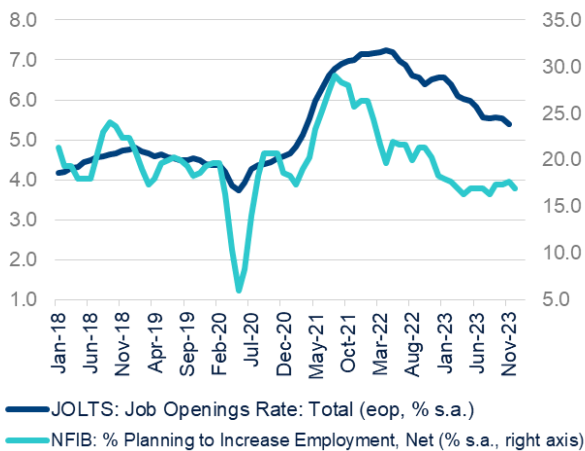
Figure 6. JOB OPENINGS AND QUILTS RATE (%)



Source: BBVA Research based on data by Haver Analytics.

Hiring plans have come down to levels slightly below the pre-pandemic ones

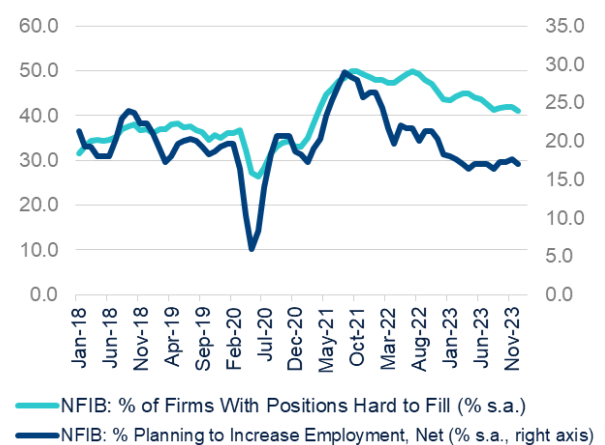
Figure 7. JOB OPENINGS AND NFIB: SMALL BUSINESS ECONOMIC TRENDS (%)



Source: BBVA Research based on data by Haver Analytics.

Small firms' plans to increase employment also point to lower job creation ahead...

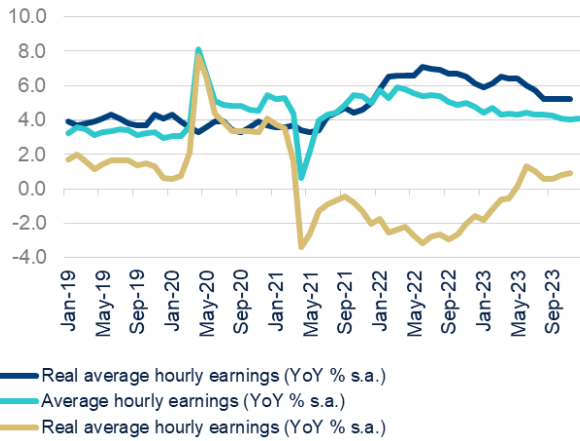
Figure 8. NFIB: SMALL BUSINESS ECONOMIC TRENDS (%)



Source: BBVA Research based on data by Haver Analytics.

... and suggest that wage growth will moderate throughout this year

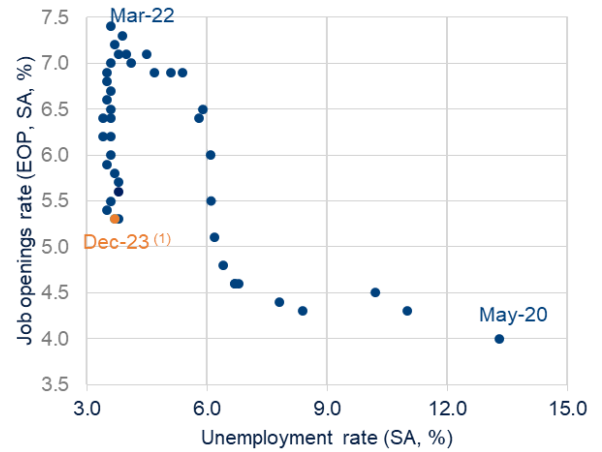
Figure 9. **AVERAGE HOURLY EARNINGS**
(ANNUAL VAR. %)



Source: BBVA Research based on data by Haver Analytics.

Most of the adjustment in the labor market has come through lower job openings

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



Source: BBVA Research based on data by Haver Analytics.

(1) Forecast

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