

US Labor Market Watch

Clearer signs of a cooling labor market emerged in April...

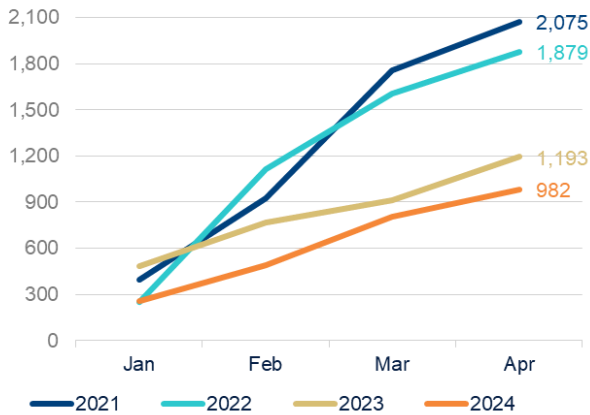
Javier Amador / David Cervantes
April 9, 2024

...with weaker job creation, UR edging up, and wages slowing down further

- Despite a strong job creation in 1Q24, the pace at which employment grew this year was a tick below last year's. **Nonfarm payrolls growth slowed more markedly in April** after increasing by a weaker 175 thousand jobs, almost a third fewer jobs than consensus expectations (243K). As a result, year-on-year employment growth stands at 1.8%, a marked slowdown compared to April 2021's increase of 4.9%, and c. 200K below last year's pace through April (see Figure 1).
- Private employment explains 87% of the net variation in employment in April, and more than half of this was due to the increase in employment in services related to health care and social assistance (86 thousand). In the case of government employment, net creation had a net sharp drop of 83.0%, with public schools cutting out the number of teachers. Only 8 thousand new jobs were created, compared to the 72 thousand the previous month and the 47 thousand jobs created in April 2023.
- **The unemployment rate (UR) edged up to 3.9% in April**, 0.1 percentage points above the previous month but 0.5pp higher than last year, pointing to a gradually cooling labor market. In the last three months, the unemployment rate has averaged 3.9%, close to the long-term unemployment rate estimate of 4.1%.
- The increase in the UR in recent months is partly explained by the growth of the labor force, which added 706 thousand people to the labor market between February and April; 12.3% of that increase corresponds to April.
- **The downward trend in job openings and the NIFB survey's employment continues.** In the case of the NIFB, the deceleration is much more pronounced, with the percentage of net planning to increase employment falling by 4.7 percentage points compared to the previous year (see Figure 5).
- As expected, the nominal growth of hourly wages has been easing, averaging 0.2% MoM from February to April. **The moderate wage increases over the last three months have been enough to bring down the annual rate to 3.9%**, down from 4.1%, **while the three-month annualized rate is now below 3.0% at 2.8%**. Softening labor demand points to moderate wage growth in the future. The year-on-year rate for March (0.6%) was 0.5 percentage points lower than that of February (1.1%), so we continue to expect.
- **The labor market is headed toward a better balance.** However, if demand continues to soften more markedly, as was the case in April, and job creation falls below expectations for several months, the labor market may potentially transition from a better balance to a negative imbalance, taking unemployment levels above the long-term trend.

Job creation is running at a softer pace this year...

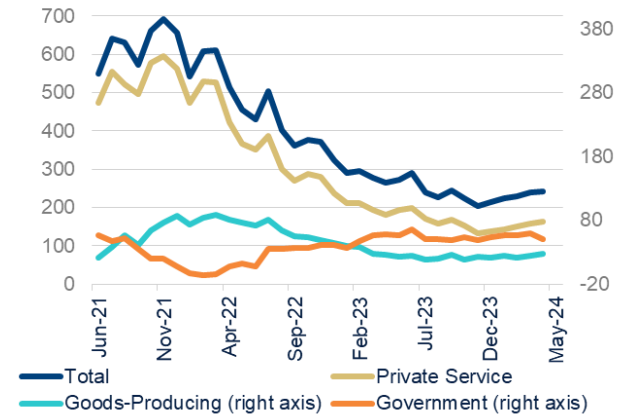
Figure 1. **NONFARM PAYROLL EMPLOYMENT**
(CUM. MoM, THOUS, SA)



Source: BBVA Research based on data by Haver Analytics.

... driven mostly by lower employment growth in goods-producing sectors

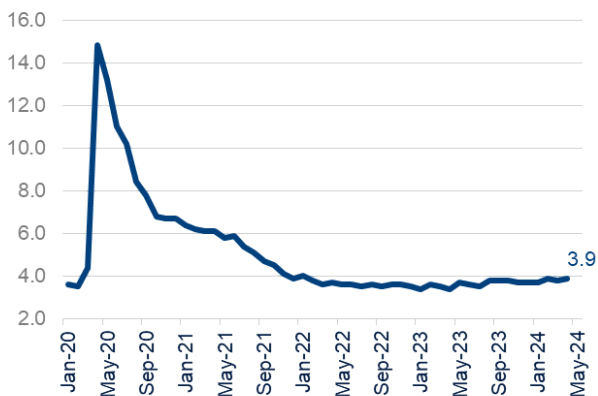
Figure 2. **NONFARM PAYROLL EMPLOYMENT**
(THOUS, MOVING AVG. 6 MONTHS, SA)



Source: BBVA Research based on data by Haver Analytics.

The UR remains somewhat below the steady-state level but has risen 0.5pp...

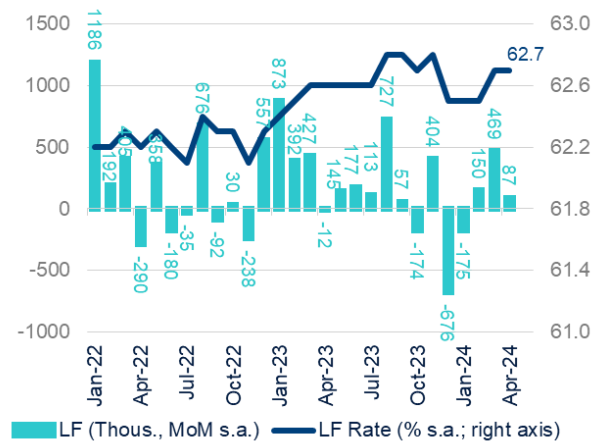
Figure 3. **UNEMPLOYMENT RATE**
(% OF LABOR FORCE, SA)



Source: BBVA Research based on data by Haver Analytics.

... over the last year, driven mostly by the increase in the labor force

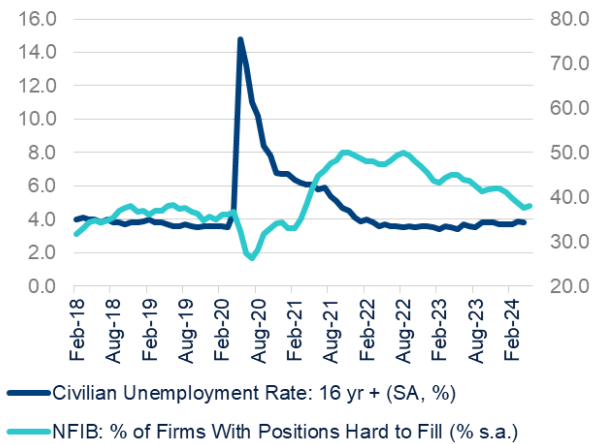
Figure 4. **LABOR FORCE**
(VARIATION %, SA)



Source: BBVA Research based on data by Haver Analytics.

Plans to hire have continued to ease, as well as job openings and quits, with the latter falling...

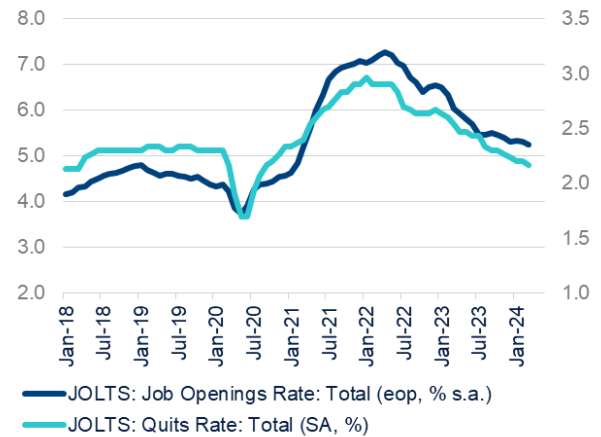
Figure 5. UNEMPLOYMENT RATE AND NFIB: SMALL BUSINESS ECONOMIC TRENDS (%)



Source: BBVA Research based on data by Haver Analytics.

... further below the pre-pandemic level and pointing to additional wage growth easing

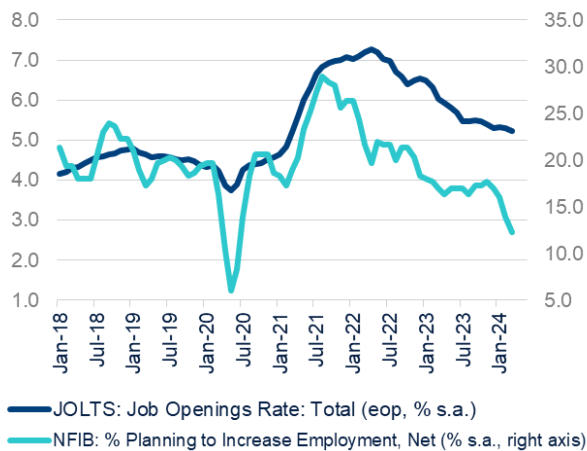
Figure 6. JOB OPENINGS AND QUILTS RATE (%)



Source: BBVA Research based on data by Haver Analytics.

Labor market demand seems to ease more rapidly in the coming months...

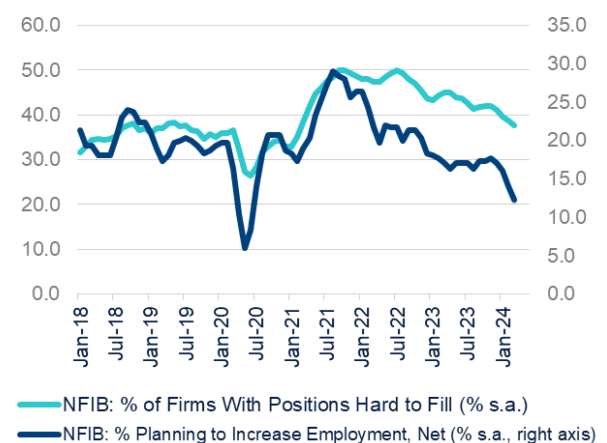
Figure 7. JOB OPENINGS AND NFIB: SMALL BUSINESS ECONOMIC TRENDS (%)



Source: BBVA Research based on data by Haver Analytics.

... which points to a much weaker pace of employment growth ahead compared to 1Q24

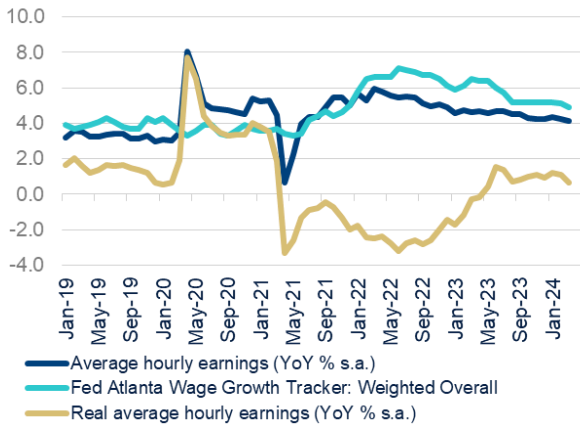
Figure 8. NFIB: SMALL BUSINESS ECONOMIC TRENDS (%)



Source: BBVA Research based on data by Haver Analytics.

Wages are likely set to continue to ease further. While most of the labor market rebalance...

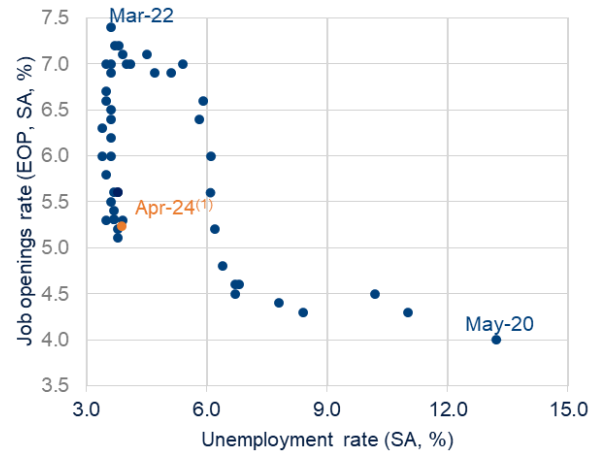
Figure 9. **AVERAGE HOURLY EARNINGS**
(ANNUAL VAR. %)



Source: BBVA Research based on data by Haver Analytics.
* Weighted Overall: 3-MMA of Median Wage Growth (NSA, Y/Y %Chg)

... has come from lower job openings, the UR could rise above the steady-state level ahead

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



Source: BBVA Research based on data by Haver Analytics.
(1) Forecast

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