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The labor market is not slowing down

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Employment continues to grow in the US, despite signs of a broad economic slowdown. GDP contracted for two consecutive quarters in the first half of 2022, but employment growth remained strong and even accelerated in July. A strong labor market reaffirms that the US economy has yet to enter a recession and additional interest rate hikes are likely in the future.

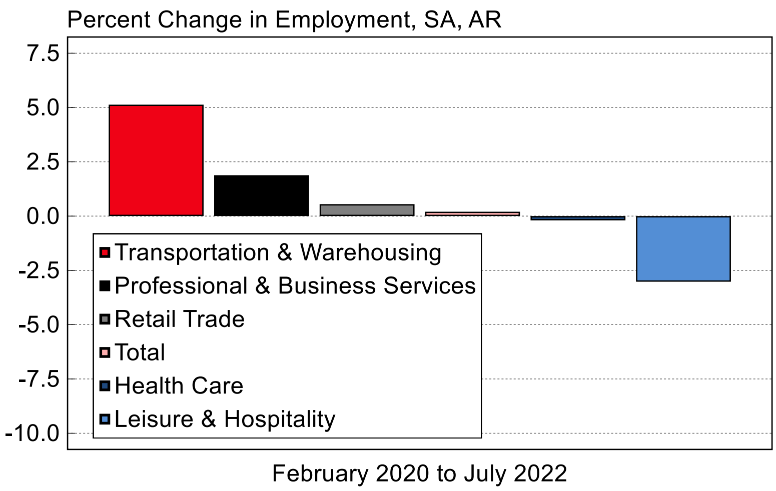
Employment growth accelerated in July

The labor market added 528,000 jobs in July, expanding more than the average monthly gain in the first half of 2022 (461,000). Nonfarm payroll employment has now reached the pre-pandemic level, with private-sector employment up 629,000 jobs and government employment down 597,000 jobs, compared to February 2020 levels.

Growth was widespread, with many industries adding jobs in July. The leisure and hospitality industry experienced expected growth, adding 96,000 jobs. Summer months lead to increased travel and consumption in food service and drinking places, which added 79,000 jobs. Overall, employment in the industry is down 7.1 percent compared to the pre-pandemic level, suggesting that there is room for continued growth in the months ahead.

Growth remained strong in the professional and business services industry, adding 89,000 jobs in July. Reports of layoffs and hiring freezes in the tech sector have not impacted the broader industry category, with employment continuing to expand in management of companies and enterprises, architectural and engineering services, management and technical consulting services, and scientific research and development services. Overall, the industry is up nearly 1 million jobs compared to the pre-pandemic level.

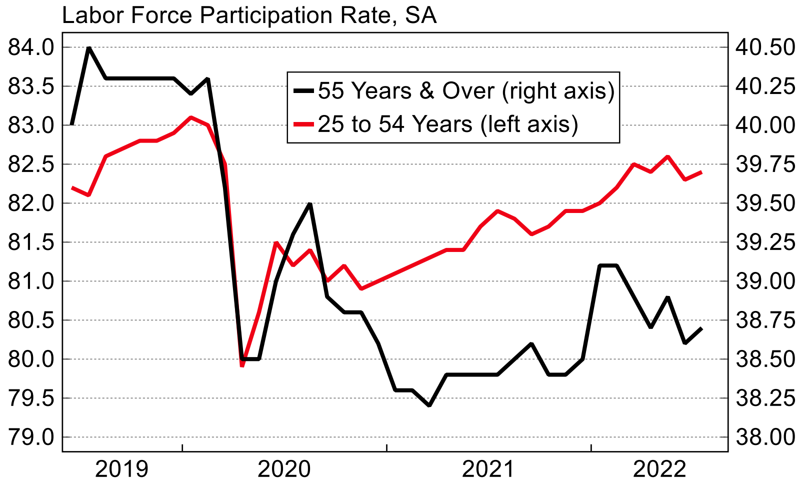
EMPLOYMENT HAS NOW REACHED THE PRE-PANDEMIC LEVEL



Source: BLS, MUFG Bank Economic Research Office

The labor force participation rate stands at 62.1 percent, below the pre-pandemic level. Participation for prime-age workers (25-54 years old) is trending upward, but recovery is slow. Older workers (55 years and over) are not showing signs of re-entering the labor force. Unlike what some had expected, rising prices of food, energy and housing have not significantly impacted the number of people returning to the labor market.

LABOR FORCE PARTICIPATION RATES HAVE YET TO FULLY RECOVER



Source: BLS, MUFG Bank Economic Research Office

The unemployment rate fell slightly from 3.6 percent in June to 3.5 percent in July. The current rate is below the natural rate of unemployment, and it satisfies the Federal Reserve's mandate of maximum employment. The stronger than expected labor market has increased the likelihood of continued aggressive interest rate hikes in the near future. The trajectory of inflation will be a significant factor in how the Fed approaches monetary tightening in the next FOMC meeting.

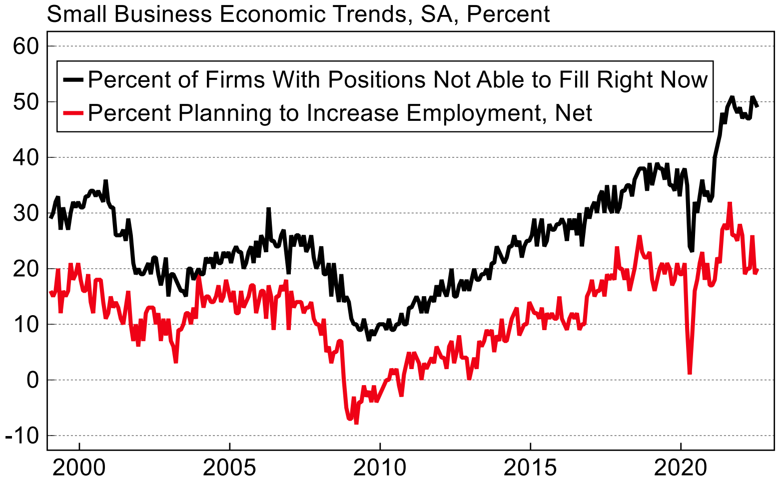
Labor market remains tight

Job openings, a leading indicator of employment, have fallen for three consecutive months, but the demand for labor is still near historic highs. The number of job openings decreased to 10.7 million in June but is up 3.7 million from the pre-pandemic level. The latest declines in job openings suggests that the labor market is losing momentum after reaching, by some indications, full employment. However, the ratio of job openings to hires, a proxy for average time to fill a position, and the percent of firms with positions not able to fill continues to be historically high. The US labor market remains historically tight and the demand for workers continues to outpace the supply of labor.

The National Federal of Independent Business (NFIB) July's job report shows no decline in recruiting difficulties and expanding employment plans. The percent of small business firms planning to increase employment in the next 3 months is hovering around the pre-pandemic rate. Employers are still seeking to increase employment despite recession signals.

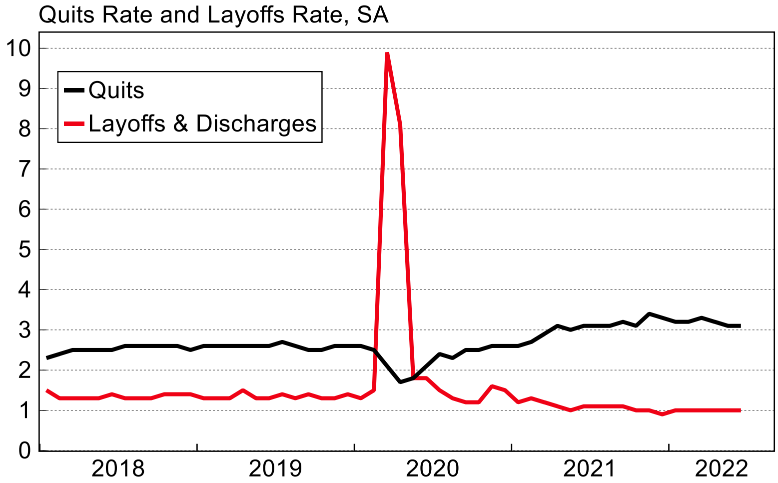
The quits rate has slowed in recent months but remains above 3 percent in June. Workers are continuing to quit their jobs at record-high rates, showing signs of an abundance of available work. Business have been more cautious about expansion in recent months, but there are no signs of downsizing. Layoffs remain historically low at 1 percent, indicating that today's job market is still the most secure in history.

FIRMS ARE HAVING DIFFICULTIES RECRUITING AMID EXPLANSION PLANS



Source: NFIB, MUFG Bank Economic Research Office

QUITS AND LAYOFFS REMAIN AT HISTORICAL LEVELS



Source: BLS, MUFG Bank Economic Research Office

The rate of hiring is slowing, but elevated labor demand and wage growth indicate that severe labor shortages are still present. Firms may be reluctant to stop hiring when the supply of available workers is scarce.

Economic output contracted in the first half of 2022, but there are little to no signs of employment downsizing. Certain industries, including in-person services and healthcare, have yet to reach pre-pandemic levels of employment and have experienced significant labor shortages in recent years. There is less of a need for downsizing when current labor demands have yet to be met.

Easing of labor shortages, where employers significantly reduce their demand for labor, will likely occur as the first step toward cost reductions before a contraction in employment or recession in the labor market is felt. Elevated labor demand and continued employment growth signals that the US has not entered a recession and that the Federal Reserve is well positioned to raise interest rates further.

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