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October's jobs report supports continued Fed pause

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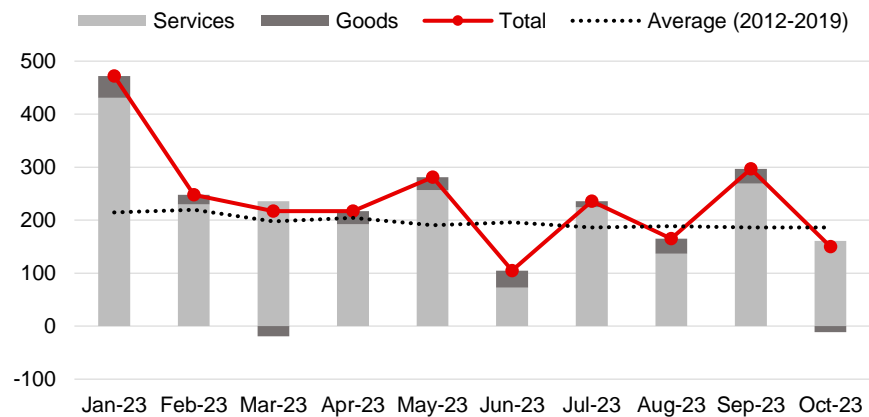
- Employment growth was modest in October and was slightly below the pre-pandemic average. Strike activity in the automotive sector resulted in manufacturing job losses, most of which were likely non-union, blue-collar jobs at the Big Three and automotive suppliers. It's unclear how many manufacturing jobs will be recovered now that the strikes are over, but this month's bump in permanent job losers as a share of total unemployment suggests that it may be a small number. The number of jobs recouped will be a test of the often-touted labor hoarding hypothesis.
- The unemployment rate increased slightly to 3.9%, but it was mostly driven by the 16-24 age group which comprises the smallest share of the labor market. Job openings rose again in September as did unemployment, keeping the vacancy to unemployed ratio at 1.5. Overall, this month's employment and JOLTS report offer little to no new insights.
- Wage growth in the Employment Cost Index (ECI) eased considerably in Q3 2023, coinciding with a rise in labor productivity and a subsequent drop in unit labor costs. Though falling, wage growth remains above 4% for goods and services industries, but stronger productivity growth may limit inflationary pressures. The current trajectory of the labor market supports a continued pause at December's FOMC meeting, especially since important Q4 data on wages and productivity won't be released until early 2024.

UAW strike tests labor hoarding hypothesis

Employment grew by 150,000 in October, slightly below October's pre-pandemic average monthly growth of 186,000. Employment growth was strong in health care (+58,000), government (+51,000), and construction (+23,000). Professional and business services and leisure and hospitality were both little changed, adding 15,000 and 19,000 jobs respectively. Most notable was manufacturing employment which fell by 35,000, of which, 33,200 was in the motor vehicles and parts industry. The UAW strikes had a significant impact on jobs in the industry despite the ongoing labor shortage.

UAW strikes resulted in job losses in the goods sector

Nonfarm payroll employment growth, thousands



Source: BLS, MUFG Bank Economic Research

The latest UAW strike was the most expansive in the sense that it covered all of the Big Three auto manufacturers at the same time. Despite this, the impact on employment appears to be smaller than the 2019 strike (though more losses may be revealed after next month's revision).

Both the 2019 and 2023 strike began on September 15, coinciding with the mid-monthly reference period for the October jobs report (October employment numbers reflect the period between September 15 and October 14). In October 2019, 46,900 jobs were lost in the motor vehicle and parts manufacturing industry, and 41,600 were recouped in the following month. This year, 33,200 jobs were lost because of the strike.

Fewer jobs lost this time potentially lends credibility to the labor hoarding hypothesis that credits low layoffs in 2023 to labor shortages and an inability to rehire workers after layoffs. Manufacturers may have been reluctant to lay off more workers out of fear they could not rehire them once the strikes conclude. But manufacturing plants that were already operating understaffed had fewer workers to layoff to begin with, so this could also be an explanation for fewer job losses. The number of lost jobs that will be recouped will be a relevant to judge the merits of labor hoarding.

The Fed has reason to keep rates steady

The unemployment rate rose slightly to 3.9% in October, up from 3.8% in September. This rise is largely inconsequential as it was primarily driven by an increase in the unemployment level of the 16-24 age group, the smallest share of the labor force. The unemployment rate was steady at 3.2% for prime-age workers (25-54) and 2.7% for older workers (55 and over).

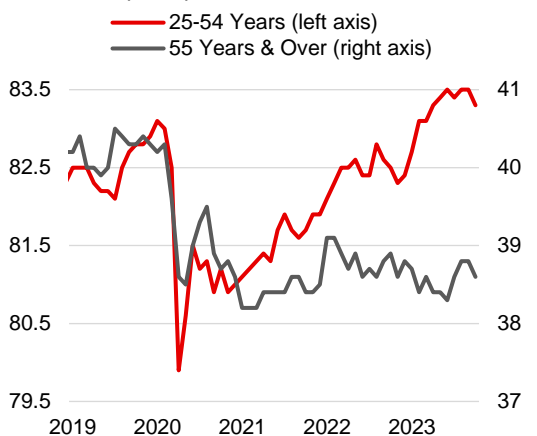
The labor force participation rate fell to the April 2023 level for prime-age workers. The participation rate has likely plateaued in the near term for both prime-age and older workers.

Job openings accelerated a bit in September, but that coincides with a slight rise in the unemployment level. The vacancy to unemployed ratio remains at 1.5%, where it has hovered around for the past 4 months. By this measure, the labor market is still historically tight, but it is slowly continuing along an easing path that was set into motion around the end of last year.

Hiring increased slightly in September and layoffs also fell. This will likely change with October's JOLTS report as the impact of the UAW strikes feeds into the data. Overall, October's jobs report and September's JOLTS report offers little to no evidence that would support more aggressive monetary policy.

Participation rates have likely plateaued

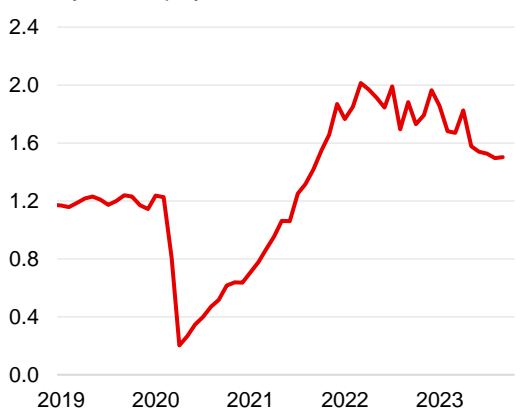
Labor force participation rates, %



Source: BLS, MUFG Bank Economic Research

Labor demand remains elevated relative to supply

Vacancy to unemployed ratio



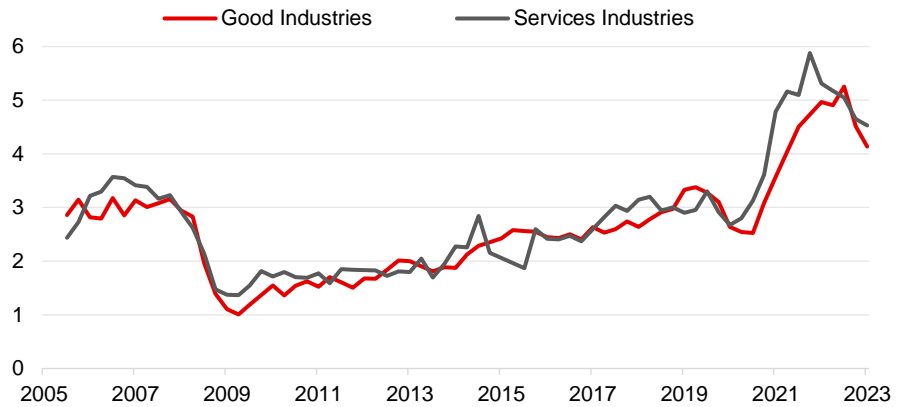
Source: BLS, MUFG Bank Economic Research

Labor market inflationary pressures are dwindling

Wage growth in the Employment Cost Index (ECI), the most reliable wage measure, eased considerably in Q3 2023. Annual wage growth fell to 4.1% in goods industries and to 4.5% in services industries. On a 2-quarter moving average annualized basis, wage growth was significantly slower for goods industries (3.0%), and slightly slower for services industries (4.4%). Fourth quarter ECI will not be available until 2024, but it will likely show continued easing. However, population growth continues to be slow and combined with plateauing labor force participation rates, labor shortages may keep wage growth above rates experienced pre-pandemic.

Wage growth in decelerating faster in goods industries

ECI wages & salaries, % Y/Y



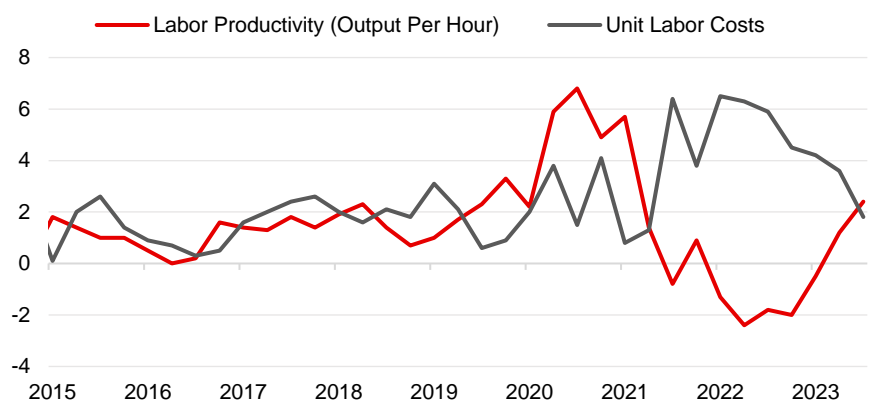
Source: BLS, MUFG Bank Economic Research

Though wage growth remains above 4%, productivity growth has accelerated in the last 2 quarters, potentially lessening inflationary pressures. Historically, wage growth that was unaccompanied by productivity growth has led to price growth. For this reason, unit labor costs are a potent measure of labor market inflationary pressures.

In Q3 2023, annual growth in unit labor costs have fallen to 2%. If labor productivity remains in positive territory for the next several quarters, the Fed will have a greater chance of reaching their 2% inflation target despite ongoing labor shortages.

Increase in productivity brings unit labor costs down

Labor productivity and unit labor costs, % Y/Y



Source: BLS, MUFG Bank Economic Research

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