AGRON NICAJ
US Economist

Economic Research Office

T: +1 (646) 357 6180
E: anicaj@us.mufg.jp

MUFG Bank, Ltd.
A member of MUFG, a global financial group

Strong headline growth but a weak underbelly

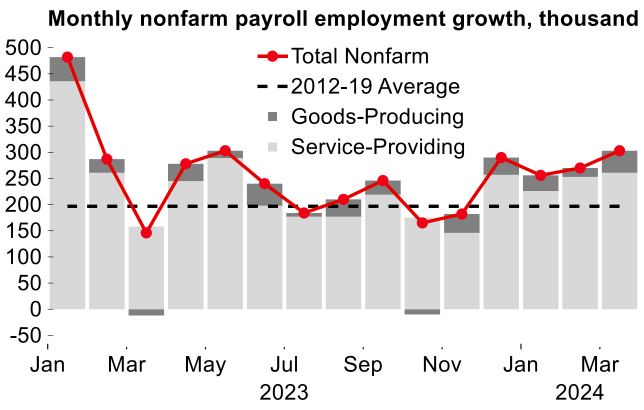
April 5, 2024

- Monthly employment growth continues to be dominated by four major industry groups, including noncyclical government and health care, construction, and leisure and hospitality. Growth in professional and business services, a historically reliable recession indicator, has been slow since 2023, both a reflection of hiring difficulties and weaker demand.
- Volatility in the unemployment rate is being driven by younger workers (16-24 years), but there is a relatively flat trend for prime-age (25-54 years) and older (55 and over) workers. So far, the rise in unemployment can largely be attributed to an expanding labor force, most of which are re-entrants to the labor force rather than first time job seekers.
- The quits rate has fallen below pre-pandemic levels, indicating loosening labor market conditions and fading bargaining power for workers. Despite elevated job openings, wage pressures are likely to subside in the coming months, given the strong positive correlation between quits and wage growth. This bodes well for services inflation, which remains elevated, but poorly for real income growth, which supports consumer spending.

Slow employment growth in cyclical industries

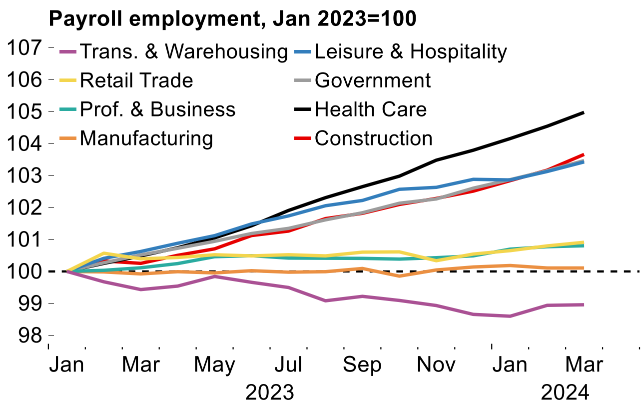
The labor market added 303,000 jobs in March, the largest monthly growth since May of last year (Chart 1). In continuation with the 2023 trend, the health care industry added the greatest number of jobs (+72,000), followed by government (+71,000), leisure and hospitality (+49,000), and the construction sector (+39,000). Fiscal policy has been driving growth in government employment and it has supported growth in construction spending, while demographic factors have been driving growth in health care. Recovery in home building has also been a big factor in the construction sector, and leisure and hospitality has finally reached pre-pandemic levels of employment.

Chart 1: Headline payroll employment growth remains strong, hovering above 250,000 monthly jobs added



Source: BLS, MUFG Bank Economic Research Office

Chart 2: Non-cyclical industries (i.e., health care & government) continue to drive much of the employment growth



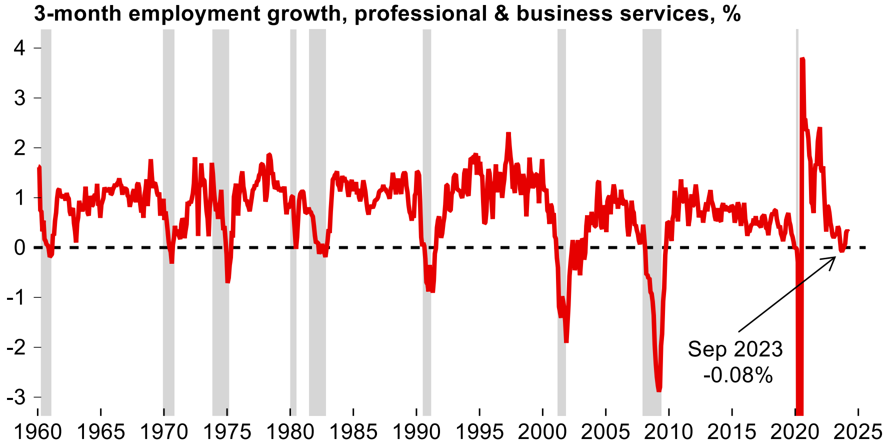
Source: BLS, MUFG Bank Economic Research Office

This industry composition of growth signals much weaker labor demand than the headline figure suggests (Chart 2). So far, the labor market is being carried by noncyclical industries (i.e., health care and government), where expansion has little correlation with overall economic conditions, and by idiosyncratic factors at the industry level (i.e., construction and leisure and hospitality).

For a more compelling indicator of labor demand in the US, look to the professional and business services sector where growth has been weak since the beginning of 2023. Historically, professional and business services is a reliable recession indicator. The US has entered or been in the middle of a recession in every instance where the 3-month growth rate became negative, except for this most recent period in September of last year (Chart 3).

This false recession signal can mostly be explained by labor shortages, considering that job openings rose while at the same time hiring fell, but weak growth overall is likely a sign that labor demand has significantly cooled in the US.

Chart 3: Jobs growth has been weak in the professional and business services sector, a historically reliable recession indicator

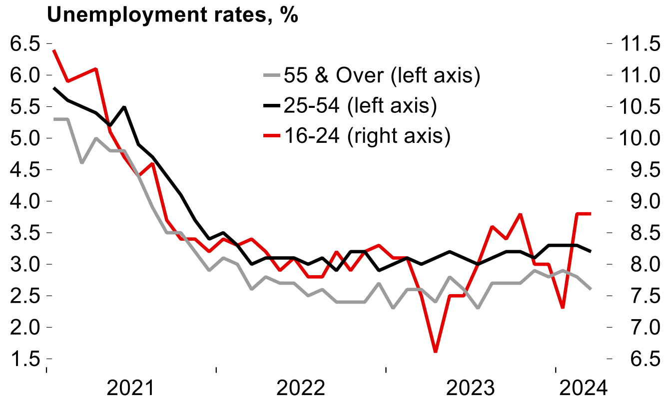


Note: Extreme negative growth rate from COVID recession is cut off
Source: BLS, MUFG Bank Economic Research Office

Younger workers and re-entrants are driving the unemployment rate

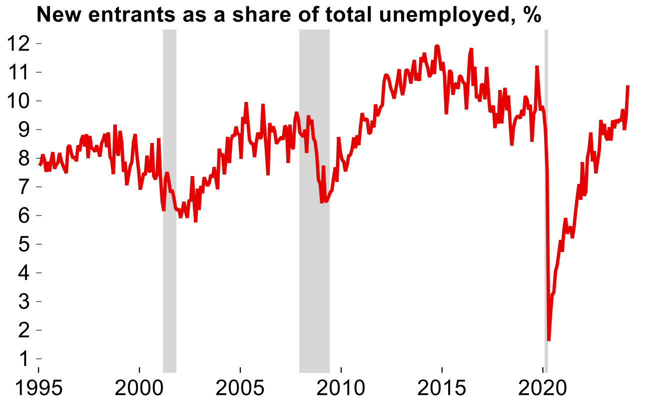
The unemployment rate nudged up to 3.8% in March, mostly driven by growth in the supply of younger workers in the labor force (Chart 4). The unemployment rate has hovered between 3.0-3.2% for prime-age workers (25-54) since 2023, and between 2.3-2.9% for older workers (55 and older).

Chart 4: Younger workers (16-24) introduce volatility to the national unemployment rate



Source: BLS, MUFG Bank Economic Research Office

Chart 5: Those looking for their first job (foreign born and native) still comprise a relatively small share of all unemployed persons



Source: BLS, MUFG Bank Economic Research Office

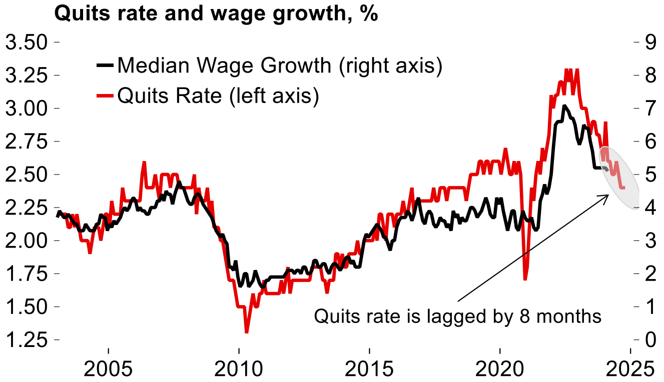
So far, growth in the unemployment rate has largely been due to growth in the labor supply, where individuals entered into the labor force as unemployed and seeking work. And of those entering the labor force, the majority are re-entrants that have past work experience, but had existed the labor force for a period of time. This includes workers that left the labor force for school and then later rejoined, or those that retired early and decided to return to work. New entrants, which includes native- and foreign-born workers with no previous work experience, still comprise a relatively small share of the total unemployed (Chart 5), but there was a significant jump in March.

Quits rate is a leading indicator of wage growth

In aggregate, workers have significantly less bargaining power now than they did in the past 2 years, evidenced by a sharply declining quits rate. The quits rate has fallen below the pre-pandemic level, which is expected to have implications for wage growth over the next 6-10 months. Shown in Chart 6, the quits rate and wage growth have a strong positive correlation, with quits acting as a leading indicator of about 8 months. This is welcomed news on the inflation front, specifically for services inflation where wages apply strong upward price pressures.

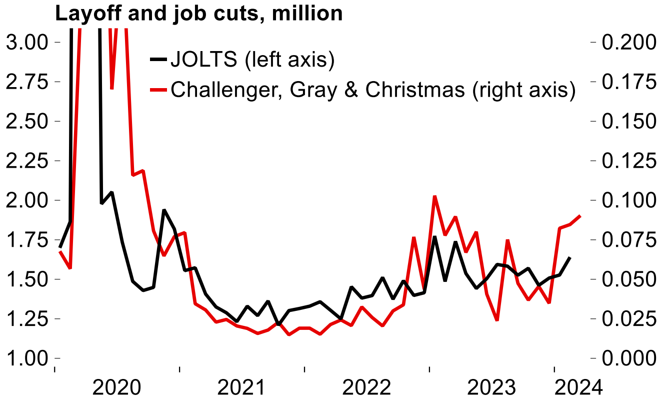
Layoffs remain historically low but have trended upward from the lows of 2021. This slight upward trend is expected to continue, with the data being further supported by private sector measures of job cuts (Chart 7). Challenger, Gray, and Christmas show a sudden rise in announced job cuts beginning in 2024, though the series does not necessarily lead JOLTS layoffs.

Chart 6: Declining quits rates will expectedly impact wage growth in the next 6-10 months



Note: Median wage growth is shown as 3-month moving average
Source: BLS, Atlanta Fed, MUFG Bank Economic Research Office

Chart 7: Growth in announced job cuts supports the slow but continued rise in JOLTS layoffs



Source: BLS, Challenger, Gray & Christmas, MUFG Bank Economic Research Office

Analyst Certification

The views expressed in this report solely reflect the personal views of Agron Nicaj, the primary analyst responsible for this report, about the subject securities or issuers referred to herein, and such views may not necessarily reflect the thoughts and opinions of MUFG Bank, Ltd. and its affiliates or management team. No part of such analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein.

Disclaimers

The information and views contained herein are not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject MUFG Bank, Ltd. (collectively with its various offices and affiliates, "MUFG Bank") to any registration requirement within such jurisdiction or country. The information and views contained herein are provided for general informational purposes only, are subject to change, and are not intended to be, nor should be used, or considered, as an offer, or the solicitation of an offer, to sell or to buy or to subscribe to or for securities or any other financial instruments, and do not constitute specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of MUFG or its management team. Neither this nor any other communication prepared by MUFG Bank should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective and it does not take into account the specific investment objectives, financial situation, or the particular needs of any specific person who may receive this information. Any information relating to performance contained herein is illustrative and no assurance is given that any indicative returns, performance or results, whether historical or hypothetical, will be achieved. Before entering into any particular transaction, you should consult an independent financial, legal, accounting, tax, or other advisor as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by MUFG Bank. MUFG Bank hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting, or other issues or risks that may arise in connection with any particular transaction or business strategy. While MUFG Bank believes that any relevant factual statements contained herein, and any assumptions on which such statements are based, are in each case accurate, neither the authors nor MUFG have independently verified its accuracy, and such information may be incomplete or condensed. The information is provided "AS IS". The authors and MUFG do not warrant the accuracy of the materials provided herein, either expressly or implied, for any particular purpose and expressly disclaims any warranties of merchantability or fitness for a particular purpose. The authors and MUFG cannot and do not guarantee the accuracy, validity, timeliness or completeness of any information or data made available to you for any particular purpose. MUFG Bank may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information and views contained herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and MUFG Bank is under no obligation to ensure that such other reports are brought to your attention.

About MUFG and MUFG Americas

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with over 360 years of history, MUFG has a global network with approximately 2,000 locations in more than 40 countries. MUFG has nearly 120,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to "be the world's most trusted financial group" through close collaboration among our operating companies and flexibly respond to all the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG's shares trade on the Tokyo, Nagoya, and New York stock exchanges.

MUFG's Americas operations, including its offices in the U.S., Latin America, and Canada, are primarily organized under MUFG Bank, Ltd. and subsidiaries, and are focused on Global Corporate and Investment Banking, Japanese Corporate Banking, and Global Markets. MUFG is one of the largest foreign banking organizations in the Americas. For locations, banking capabilities and services, career opportunities, and more, visit www.mufgamericas.com.