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

Growth in unemployment is not enough

July 5, 2024

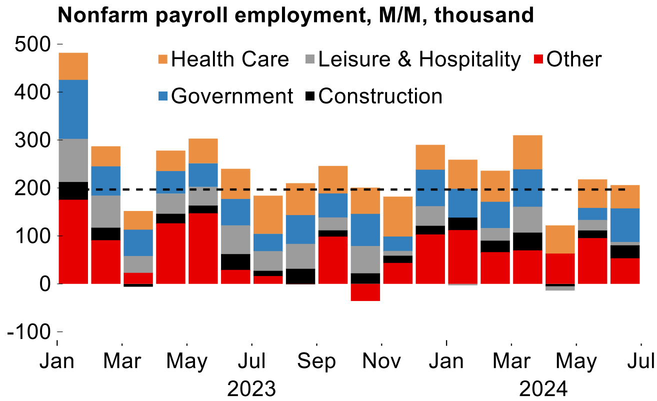
- Nonfarm payroll employment growth continues to be dominated by a small subset of industries. In June, growth in health care remained strong and government added an outsized number of jobs, offsetting unusually low growth that occurred back in April. Employment growth continues to be weak in the “other” industries, notably in temporary help services where job losses are historically a reliable leading indicator of an overall contraction in the labor market.
- The unemployment rate rose for the second straight month, now standing at 4.1% in June. Prime-age workers were primarily responsible for the latest increase, but much of that is due to growth in labor force with an increased share of new entrants and those with no prior work experience entering the job market. Job losers as a percentage of total unemployed and layoffs continue to be low.

Establishment vs household survey

The labor market added 206,000 jobs in June, similar to May’s downwardly revised growth of 218,000, and closely in line with the pre-pandemic average of 197,000 jobs added per month from 2012 to 2019 (Chart 1). Employment growth continues to be dominated by a small subset of industries, including health care, government, leisure and hospitality, and construction.

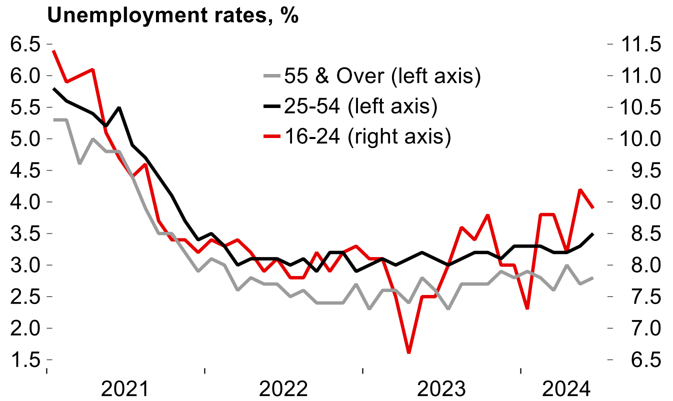
Notable was an acceleration in government, where employment rose by 70,000 in June compared to 25,000 in May and an average of 49,000 over the past 12 months. Much of the growth came from local and state governments, and it most likely reflects a continued recovery from the unusual zero jobs added back in April. Construction employment growth also accelerated, adding 27,000 jobs in June, with public infrastructure projects supporting much of the growth.

Chart 1: Employment growth continues to be dominated by a small subset of industries



Source: BLS, MUFG Bank Economic Research Office

Chart 2: Prime-age workers, the largest share of the labor force, drove growth in the unemployment rate in June



Source: BLS, MUFG Bank Economic Research Office

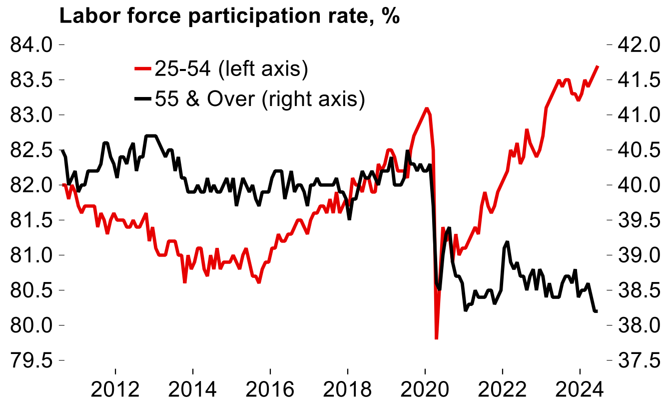
Overall, the story hasn't changed with respect to data from the establishment survey. Growth in professional and business services continues to be weak, namely in temporary help services where employment fell by 49,000 in June. Historically, job losses in the temp help industry acted as a leading indicator, signalling an upcoming contraction in the overall labor market with the logic that employers eliminate temporary employees ahead of permanent ones. However, the temp help industry has consistently been losing jobs since March 2022, while the rest of the labor market (as a whole) has been expanding. As of now, it looks to be another false red flag.

All eyes have now turned to the household survey, where the unemployment rate has risen for two consecutive months, now standing at 4.1% (Chart 2). Over the past several months, movements were largely driven by younger workers aged 16-24, the smallest labor force subgroup. But now, prime-age workers (25-54), which comprise the largest share of the labor force, have led the rise going from 3.3% unemployment in May to 3.5% in June.

Labor force growth is driving unemployment

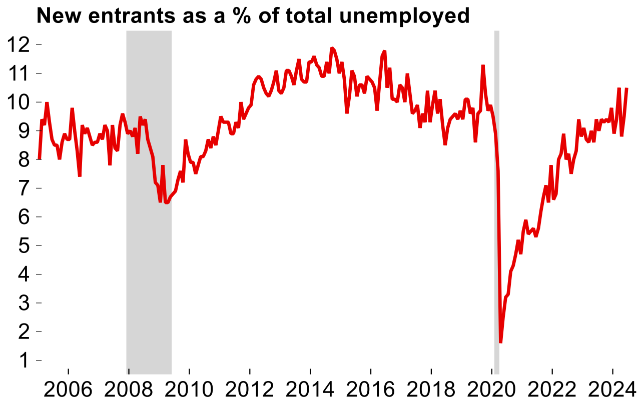
As the unemployment rate rises for prime-age workers, so does the labor force participation rate. Shown in Chart 3, labor force participation has trending upward for workers aged 25-54 since December of last year, rising to 83.7% in June and remaining well above the pre-pandemic rate. And though participation has largely fallen for older workers (55 and older) during that same period, it does help to explain the latest rise in unemployment that is not being met with increased job losses.

Chart 3: The labor force participation rate continues to rise for prime-age workers, offsetting the decline for older workers



Source: BLS, MUFG Bank Economic Research Office

Chart 4: A jump in new entrants to the labor force helped push the unemployment rate up



Source: BLS, MUFG Bank Economic Research Office

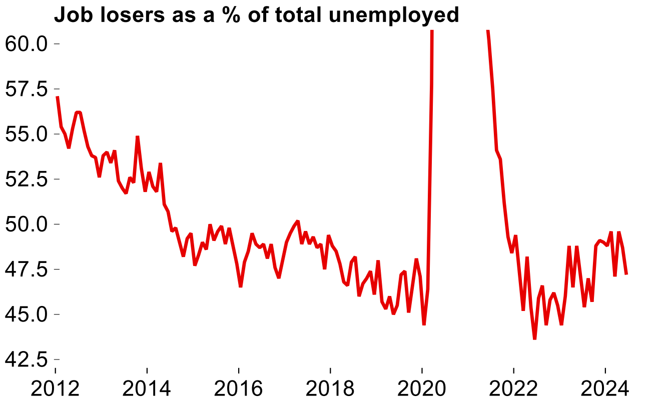
When individuals join the labor force, they predominately enter as unemployed, where they are without a job but are looking for work. They would be classified as either a re-entrant, where they had worked or looked for work in the past, or a new entrant, where they are a first-time job seeker. In June, the share of new entrants rose considerably, further supporting that much of the rise in unemployment was indeed from "new" growth in the labor supply (Chart 4).

While the Fed does not have an explicit unemployment rate target, 4.2% has been touted by analysts as the presumed threshold that would trigger the first rate cut. This is, in part, due to the historical success of the Sahm Rule at signalling the start of a recession. But given the extent to which labor supply fell during the COVID recession and the severity of labor shortages over the past four years, growth in the labor force will likely continue to drive movements in the unemployment rate.

Indeed, the labor market is cooling, evidenced by the broad weakness in "other" industries outside of the "big four" (Chart 1), gradually falling job openings and quits, and slowing wage growth. But significant job losses and layoffs continue to elude the

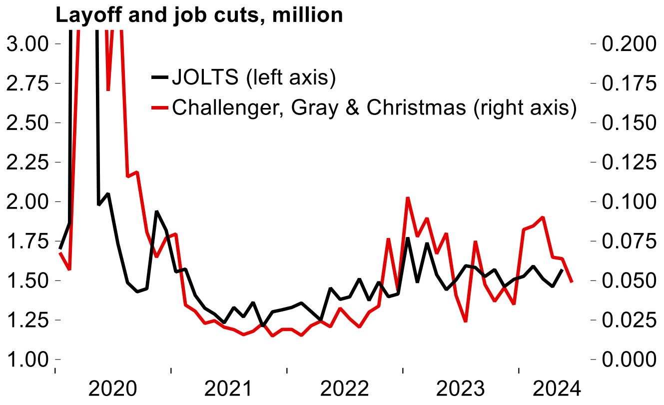
US labor market. Job losers as a share of total unemployed fell sharply in June (Chart 5), layoffs from JOLTS remain low, and announced job cuts from Challenger, Gray and Christmas are trending downward (Chart 6). The current growth in unemployment is certainly not indicative of a contracting labor market, and during no point in history has there been a greater disconnect between establishment survey job gains and unemployment rate increases. For this reason, a triggering of the Sahm Rule will likely be another false red flag, and 4.2% unemployment may not be enough for the Fed.

Chart 5: Growth is unemployment is having less to do with those losing their job, and more to do with labor force growth



Source: BLS, MUFG Bank Economic Research Office

Chart 6: Though slightly trending upward since 2021, layoffs remain historically low



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

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.