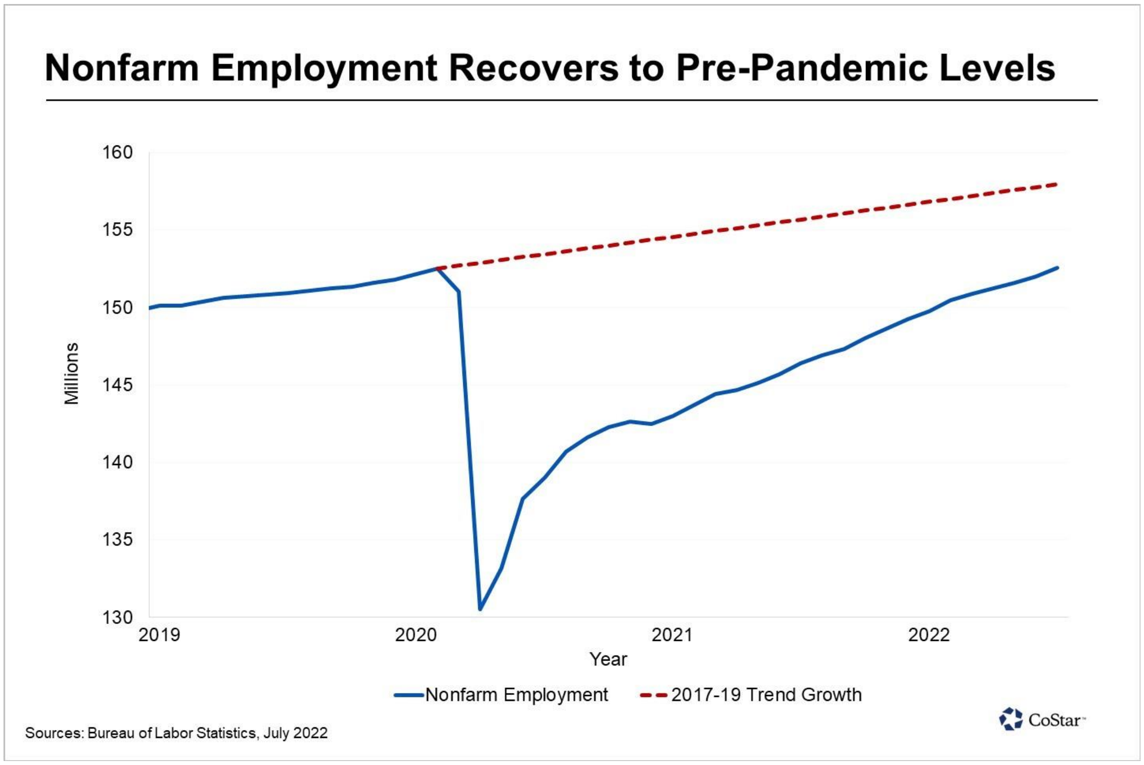
Not So Fast — Labor Market Recovery Appears Less Than Stellar

After losing 22 million jobs in just two months in 2020, nonfarm payrolls finally recovered 27 months later, according to the [Bureau of Labor Statistics](). The news came in a surprising jobs report that showed accelerated hiring in the month of July, despite other parts of the economy flashing recessionary signals.

Reaching this milestone was much celebrated, and for good reason, but there's still far more damage yet to be repaired. While pre-pandemic levels are perhaps an important barometer, payrolls remain well below what they would have been had employment growth remained on its pre-pandemic trajectory.

Had trend growth from 2017 to 2019 continued, we would have had an extra 5.5 million jobs by this time.



It's also important to consider regional differences. Jobs have primarily recovered in markets seeing robust population growth, mostly in the Sun Belt and Mountain West regions. Nonfarm employment in the South is 1.5% higher in June 2022 than it was in February 2020. Other U.S. regions still face shortfalls ranging from 2.6% in the Northeast to 0.4% in the West.

The composition of today's employment looks quite different than it did before COVID hit, largely because of pandemic-related transitional shifts.

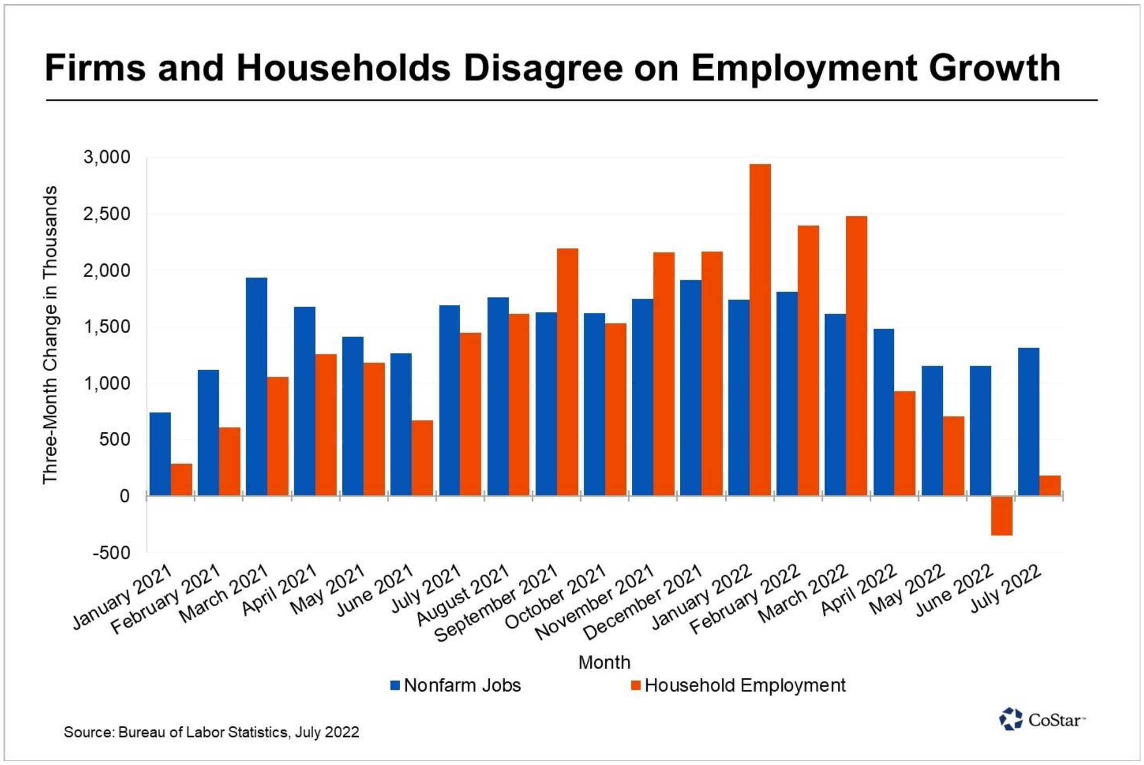
Flexible work policies have made some jobs more accessible to workers who are fed up with lengthy daily commutes. As a result, demand for lunch eateries and personal care services in dense downtown areas has shifted toward suburban neighborhoods as workers do their jobs from their home offices.

The technology required to connect employees to each other and to their managers exploded the demand for professional and technical services. Meanwhile, during two years of hunkering down at home, households have loaded up on electronics, furniture, home exercise equipment and appliances, all of which needed to be stored in warehouses before being trucked to consumers.

These forces are still reflected in the current labor market. From an industry perspective, there are now 812,000 more jobs in professional and technical services than there were in February 2020 and almost 750,000 more in transportation and warehousing jobs. At the same time, hotels and restaurants are still short more than 1 million jobs, and local government employment, which consists mostly of teachers, is short more than half a million.

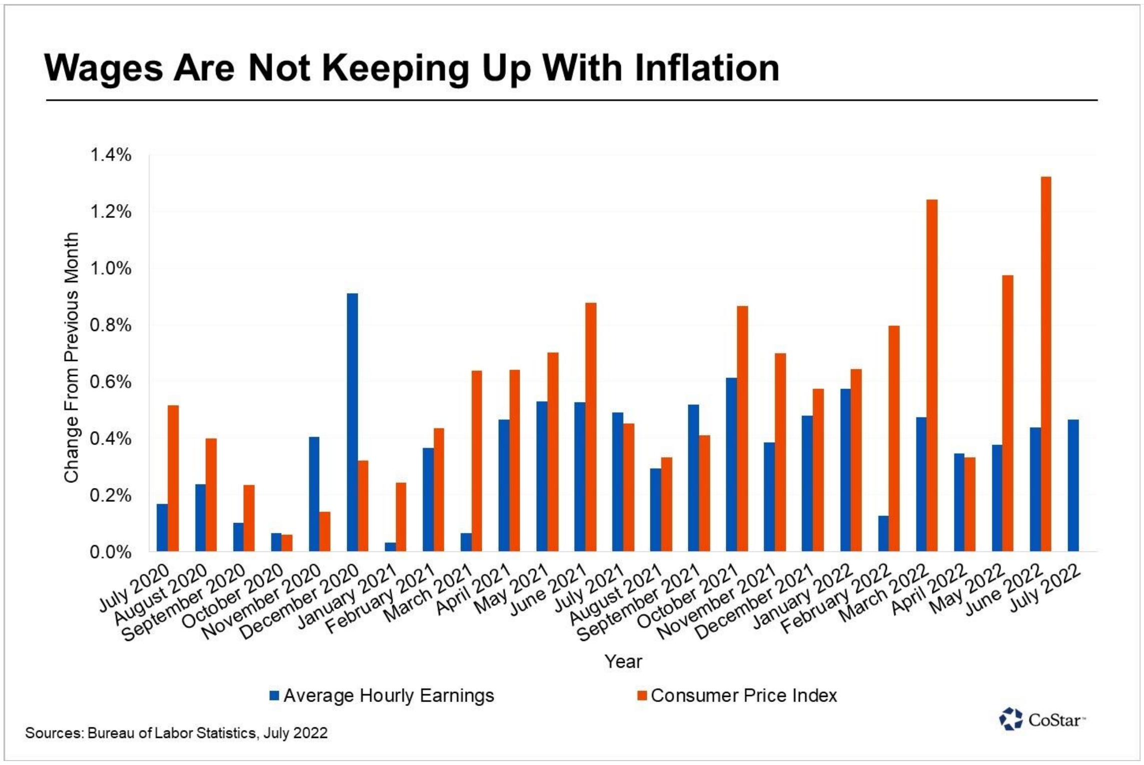
While payrolls recovered in July, the government's household survey is showing signs of softening in the labor market. The labor force participation rate fell to 62.1% in July after reaching a peak of 62.4% in March. This is still a far cry from the pre-pandemic rate of 63.4%, meaning there are 623,000 fewer people employed or looking for work today than two years ago. The data are quite choppy from month to month, but looking at three-month averages instead, we see that men have recently been moving to the sidelines, possibly due to retirement, just as women are continuing their return to work.

The two surveys in the jobs report differ in significant ways and are diverging. Employment in the household survey, which includes household workers, the self-employed, farm, and contract workers, has grown by just 185,000 over the past three months, while nonfarm payrolls have grown by 1.3 million positions. Adjusted to be more consistent with methods used in the payroll numbers, household employment is up by almost 800,000. The difference between the series may partly reflect downsizing from tech firms and other companies that rely heavily on contract workers.



Another sign of softening in the labor market is visible in the number of job openings , which fell to 10.7 million at the end of June compared to a peak of 11.9 million in March — a 10% decline. Job openings first began to fall in April in the South, where job growth has been the strongest, and the downdraft spread to the Midwest in May, where inflation has taken a larger toll on the regional economy. Since then, job openings in the Northeast and West regions fell sharply in June. Job openings in the retail trade sector alone have fallen by 33% since their peak in March.

Despite what appears to be slowing, the shortage of workers compared to demand for employees seen in the job listings data continues to push wages higher. Average hourly earnings rose by 0.5% in July, its fourth consecutive month of acceleration, and by 5.2% over the year. While this does appear to be a sign of the bargaining power of labor, it is not enough to counteract current inflation, which is running at around 9%.



What We're Watching …

How much the Federal Reserve will raise rates at its next policy meeting is a parlor game at this point, as wages and prices rise and job growth still seems solid, arguing for a strong response, but other signs showing economic weakening, such as factory activity and consumer and business sentiment, give weight to a more measured rate hike. We're weeks away from the panel's next decision and a lot of data is to be released in the interim. We'll get an update on how consumers are feeling this week with the University of Michigan Consumer Sentiment Index. Needless to say, not everyone is all that upbeat about the economy these days.

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