

US Labor Market Watch

# Is the labor market starting to show some cracks?

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August 14, 2024

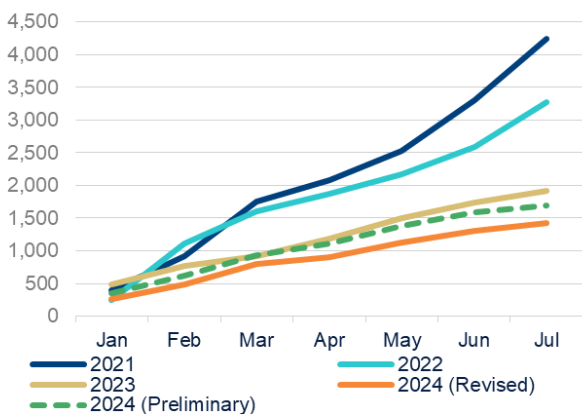
## Despite the steady increase in the UR and the jump in July, strong labor force growth rather than weak labor demand still explains it

- Despite its weakness, it still seems premature to suggest that the labor market is breaking down. We must stay attentive to its future behavior and the Fed's actions to prevent further deterioration and avoid a severe decline.
- Private nonfarm payrolls grew by only 114K jobs, and once again, there were downward revisions for the previous months. May and June together had 29K fewer jobs than previously reported. Despite this, it's important to highlight that positive job creation continues, with 1.4 million jobs added from January to August, a pace just shy of  $\frac{3}{4}$  (73.9%) of the previous year's rate of growth.
- One of the data points that most concerned the markets was the unemployment rate (UR), which, in seasonally adjusted figures, rose to 4.3%, an increase of 0.2 percentage points from the previous month, bringing us very close to triggering the Sahm rule. This rule identifies the onset of a recession when the three-month average unemployment rate increases by at least 0.50 percentage points from the lowest level in the previous 12 months. However, we will need to monitor the UR in the coming months for two key reasons: first, because the increase in July is largely attributed to the rise in the labor force, and second, because despite these increases, the UR remains just 0.1 percentage points away from the Fed's long-term target for this indicator and July's print came no closer of triggering the Sahm Rule because the previous 12-month 3.5% low of July 2023 dropped out of the calculation.
- The labor force participation rate has increased by 0.1 percentage points each of the past two months. Although this variation may seem small, it represents an absolute growth of 697 thousand people in the labor force over just two months, surpassing the labor market's absorption capacity.
- The NFIB survey's July Employment report indicates that the trend remains steady, with three consecutive months at 15.0%. As a result, the moving average shows a moderate growth trend, suggesting that moderate job creation may continue. The job openings rate, which halted its rise in June, remained at 4.9%, the same level recorded in the previous month. Thus, this measure does not point to a sharp decline either.
- Average hourly wages increased 0.2% month-on-month in July, 0.1 percentage points less than the previous month, which places the annual growth rate at 3.7%. The three-month annualized rate increased to 3.7% from 4.9% compared to last year.
- We continue to think that, although there are warning signs and the odds of a soft landing have decreased somewhat, the labor market is (still?) nowhere close to suggesting that recession is likely. Supply-side factors have driven up the unemployment rate, but there are no clear signs of a pronounced slowdown on the demand side. There is understandable concern about the labor market, but markets seem to have overreacted. Yet, risks to growth have undoubtedly increased, and that's why the Fed is now increasingly focusing on its full

employment goal. Less strength in the labor market and easing core inflation point to the start of the rate-cut cycle in the next FOMC meeting in September.

**Job creation slowed down to just 114K in July, much weaker than the 175K consensus forecast**

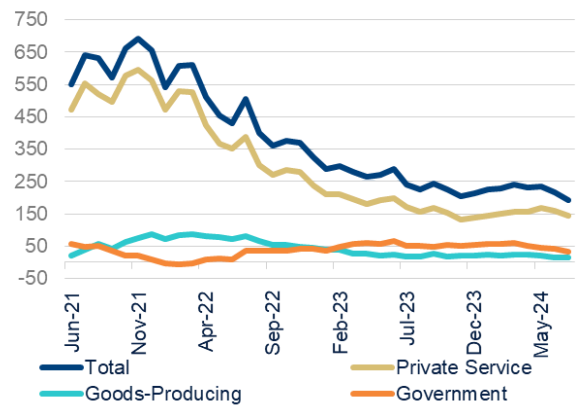
Figure 1. **NONFARM PAYROLL EMPLOYMENT**  
(THOUS, CUM. MoM, SA)



Source: BBVA Research based on data by Haver Analytics.

**The slowdown was broad-based across all sectors; private service jobs rose just 72K**

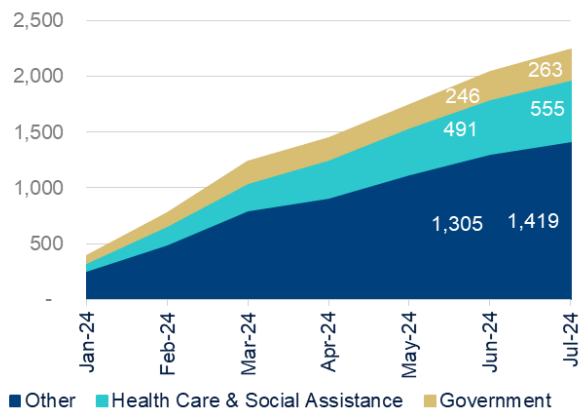
Figure 2. **NONFARM PAYROLL EMPLOYMENT**  
(THOUS, MOVING AVG. 6 MONTHS, SA)



Source: BBVA Research based on data by Haver Analytics.

**Healthcare employment continues to show sound growth...**

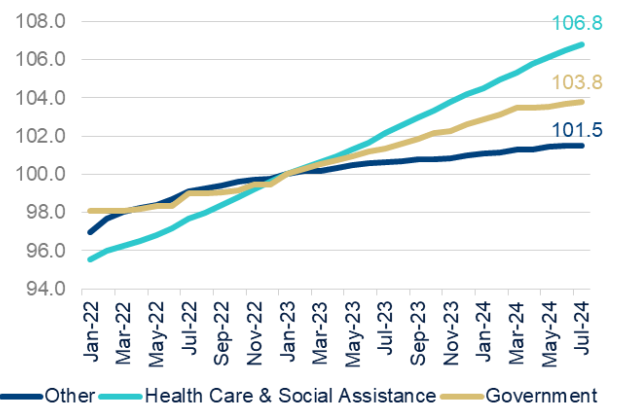
Figure 3. **NONFARM PAYROLL EMPLOYMENT**  
(THOUS, CUM. MoM, SA)



Source: BBVA Research based on data by Haver Analytics.

**... but government employment has provided less support over the last three months**

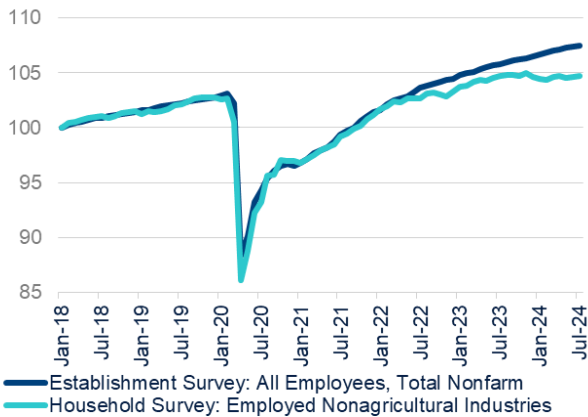
Figure 4. **NONFARM PAYROLL EMPLOYMENT**  
(INDEX JAN/2023=100, SA)



Source: BBVA Research based on data by Haver Analytics.

**The household survey continues to point to less robust demand in the labor market**

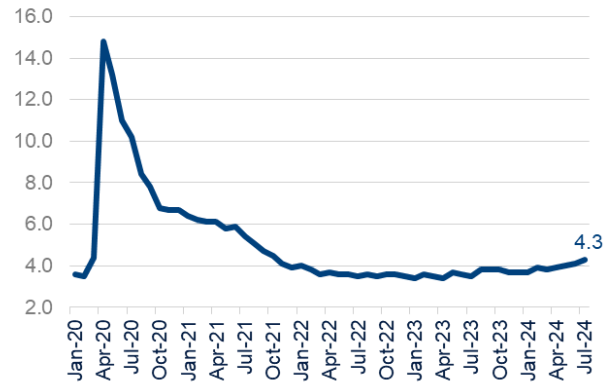
Figure 5. **TOTAL EMPLOYMENT**  
(INDEX JAN/2018=100, SA)



Source: BBVA Research based on data by Haver Analytics.

**The UR jumped 0.2pp to 4.3%...**

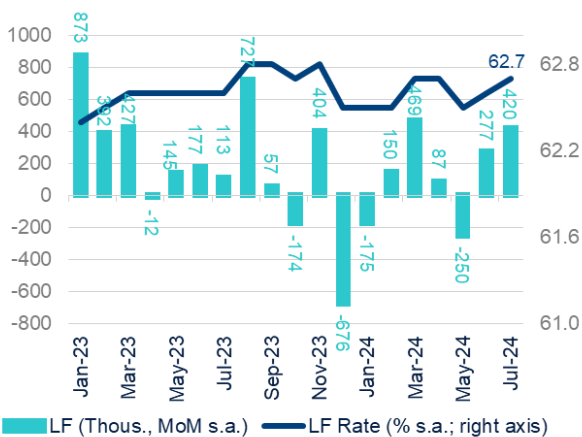
Figure 6. **UNEMPLOYMENT RATE**  
(% OF LABOR FORCE, SA)



Source: BBVA Research based on data by Haver Analytics.  
\* When the three-month moving average of the jobless rate rises by at least a half-percentage point from its low during the previous 12 months, then a recession has started.

**... but the increase was mostly driven by strong labor force growth**

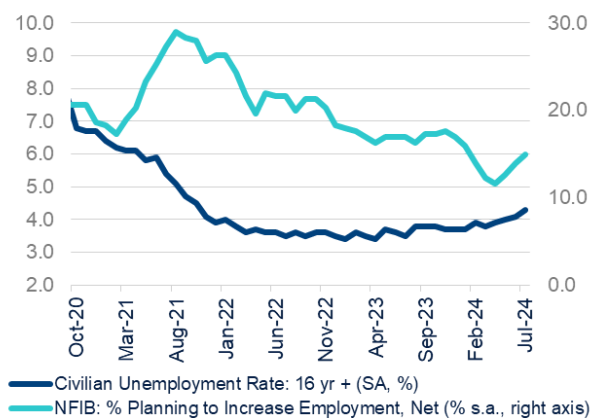
Figure 7. **LABOR FORCE**  
(NET VARIATION AND % OF LABOR FORCE, SA)



Source: BBVA Research based on data by Haver Analytics.  
\* i.e., more supply, not significantly weaker demand

**Small firms' plans to increase employment remain below pre-pandemic levels**

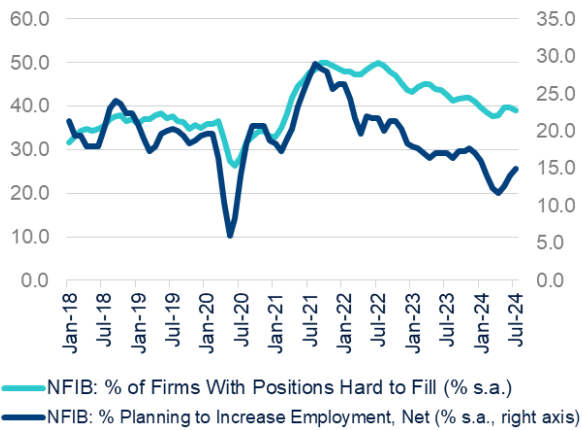
Figure 8. **UNEMPLOYMENT RATE AND NFIB: SMALL BUSINESS ECONOMIC TRENDS**  
(% OF LABOR FORCE AND %, MOVING AVG. 3 MONTHS SA)



Source: BBVA Research based on data by Haver Analytics.

**NFIB jobs hard to fill survey measure eased...**

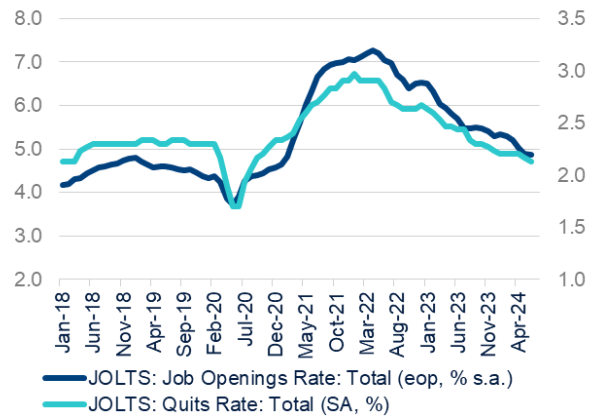
**Figure 9. NFIB: SMALL BUSINESS ECONOMIC TRENDS** (% , MOVING AVG. 3 MONTHS)



Source: BBVA Research based on data by Haver Analytics.

**... while the job quits rate fell. Both measures point to slower wage growth ahead**

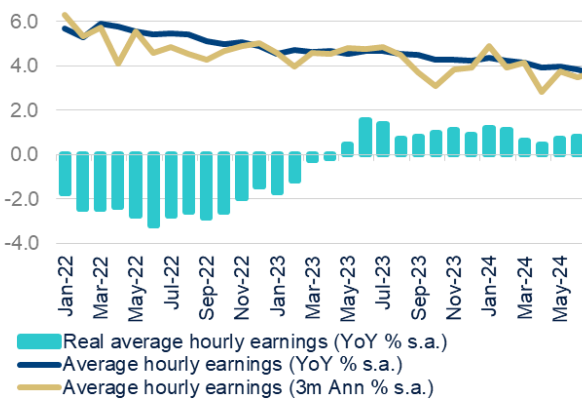
**Figure 10. JOB OPENINGS AND QUILTS RATE** (% , MOVING AVG. 3 MONTHS)



Source: BBVA Research based on data by Haver Analytics.

**AHE annual growth continues to ease after posting a smaller 0.2% MoM rise**

**Figure 11. AVERAGE HOURLY EARNINGS** (ANNUAL VAR. %, SA)

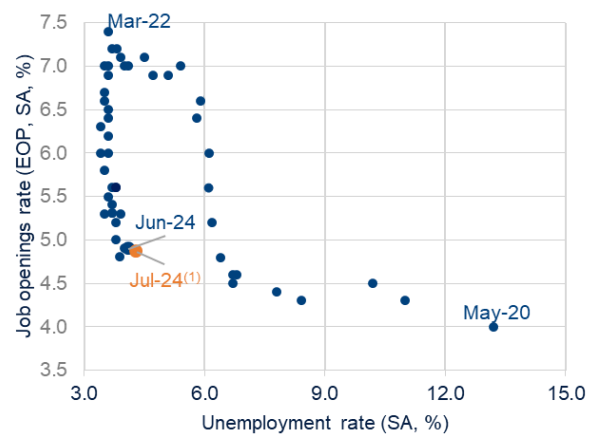


Source: BBVA Research based on data by Haver Analytics.

\* Weighted Overall: 3-MMA of Median Wage Growth (NSA, Y/Y %Chg)

**After the UR hit a three-year high of 4.3%, the Beveridge Curve moved somewhat**

**Figure 12. THE BEVERIDGE CURVE** (% , SA)



Source: BBVA Research based on data by Haver Analytics.

(1) Forecast

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