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No signs of a recession in the US labor market

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The US labor market is not showing signs of a recession as employment continues to expand at a steady rate. The strong labor market along with ongoing labor shortages and elevated wage growth supports the Fed's stance on additional interest rate increases in an effort to stabilize prices.

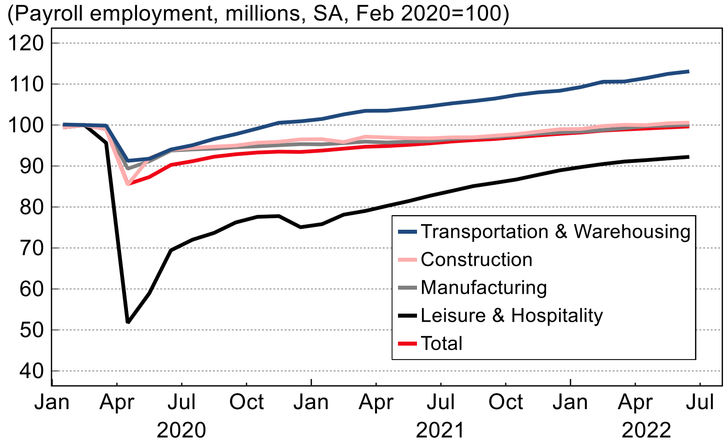
The labor market continues to add jobs

In the second quarter of 2022, the labor market grew at an average of around 380,000 jobs a month and overall employment is down only 0.3 percent from the pre-pandemic level, as of June 2022. Movements in the labor market can lag economic activity, but the latest jobs report shows that employers are still hiring, even as looming recession fears mount. Temporary help services, often a leading indicator of hiring in other industries, added an additional 5,400 jobs in June.

Growth remains robust in in-person service industries and professional and business services. The leisure and hospitality industry continues to expand, adding an average of about 65,000 jobs a month in the second quarter of 2022. Overall, employment in the industry is down 7.8 percent compared to the pre-pandemic level, but in-person services are expected to continue to grow as consumption shifts away from goods and toward services.

Employment in construction showed little change over the month in June as high prices and rising mortgage rates slowed demand for housing. Retail trade also showed little change, consistent with shifts in consumer spending and reports of excess inventory of large US retailers.

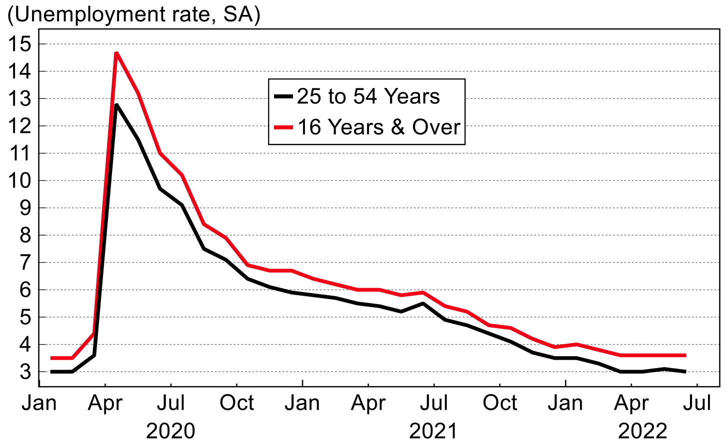
EMPLOYMENT HAS NEARLY REACHED THE PRE-PANDEMIC LEVEL



Source: Bureau of Labor Statistics, MUFG Bank Economic Research Office

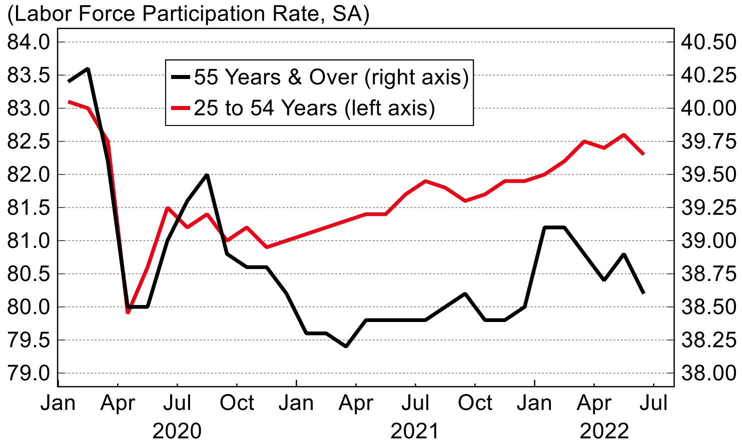
The unemployment rate remained at 3.6 percent throughout the second quarter of 2022 and labor force participation rates are showing little to no improvement, standing at 62.2 percent overall in June. Growth in participation rates have stalled for both men and women, driven largely from older workers and early retirees not re-joining the labor force. While trending upward, improvements in labor force participation rates for those in the prime age working group (25-54 years old) are slow as concerns related to COVID-19 infection and childcare availability remain.

UNEMPLOYENT RATE WAS UNCHANGED FOR FOUR CONSECUTIVE MONTHS



Source: Bureau of Labor Statistics, MUFG Bank Economic Research Office

LABOR FORCE PARTICIPATION RATES HAVE YET TO FULLY RECOVER



Source: Bureau of Labor Statistics, MUFG Bank Economic Research Office

Given the strong June jobs data, a recession in the labor market is unlikely in 2022. However, the Federal Reserve will likely interpret the labor market as being strong enough to withstand additional interest rate hikes and risk raising the unemployment rate beyond 4 percent to curb inflation.

Labor shortages are not showing signs of alleviating

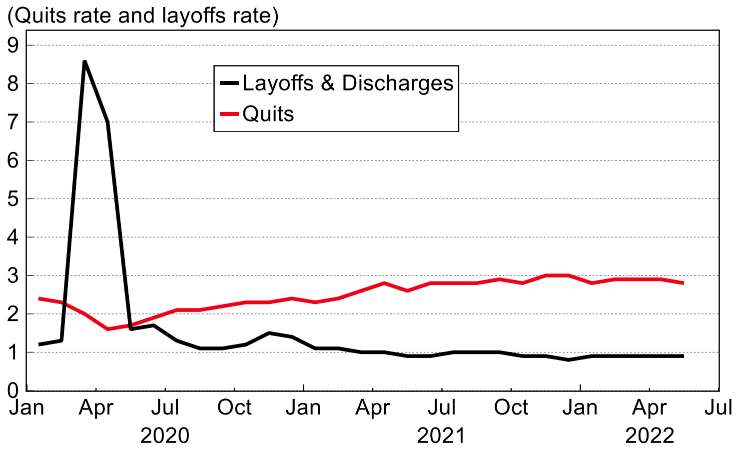
The US labor market remains historically tight and the demand for workers continues to outpace the supply of labor. In May, job openings decreased to 11.3 million, but remains at a historically high level. The latest drop in job openings suggests that the labor market is losing momentum after reaching, by some indications, full employment. However, the ratio of job openings to hires, a proxy for average time to fill a position, continues to be historically high with employers still struggling to meet their labor demands.

The May quits rate remains above 3 percent with workers continuing to quit their jobs at record-high rates, showing signs of an abundance of available work. Layoffs also remain historically low at 1 percent, indicating that today's job market is still the most secure in history.

Elevated labor demand and growing employment suggests that firms are reluctant to let workers go or postpone hiring when the supply of labor is scarce, even amid a growth slowdown. Reports of hiring freezes, employment retractions, and layoffs from large US tech firms aren't necessarily indicative of national trends. Though data on job openings are lagged, recruitment and retention of workers can vary significantly at the employer and industry level.

Blue collar workers and occupations requiring less than a bachelor's degree have experienced the brunt of labor shortages. The large exodus of the Baby Boomer generation from the workforce, poor growth in the working-age population, and large increase in disability rates have contributed to a shrinking pool of blue-collar workers. Combined with overall slower labor productivity, there continue to be more jobs, specifically those in blue-collar occupations, than workers to fill them.

QUITS AND LAYOFFS REMAIN AT HISTORICAL LEVELS



Source: Bureau of Labor Statistics, MUFG Bank Economic Research Office

Therefore, a sustained drop in economic output will likely result in an easing of labor shortages where employers reduce hiring and demand for labor before a contraction in employment or recession in the labor market is felt. Until then, the Federal Reserve is well positioned to maintain monetary tightening measures.

Wage growth is slowing, but remains elevated

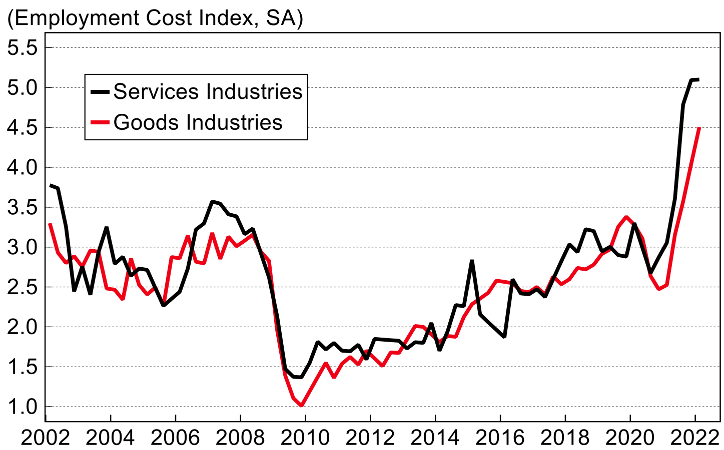
Growth in average hourly earnings have slowed in June to 6.4 percent for private production and nonsupervisory workers from peak year-over-year growth in the first quarter of 2022. However, the rate of growth is elevated by historical standards and labor shortages are likely to impact future wage growth.

Industries most impacted by labor shortages have experienced the largest wage gains since the pandemic, with workers maintaining bargaining power. Average hourly earnings in leisure and hospitality have grown 10.2 percent in June, compared to last year, while earnings in transportation and warehousing have grown 10.6 percent. The Employment Cost Index paints a similar picture where services industries have outpaced goods industries in wages and salaries of private industry workers.

As consumption habits continue to shift away from goods and toward services and as labor shortages persist, growth in wages is likely to remain elevated in these industries. While good for workers, high wage growth risks feeding into inflation where employers raise the costs of goods and services further to maintain margins amid rising labor costs.

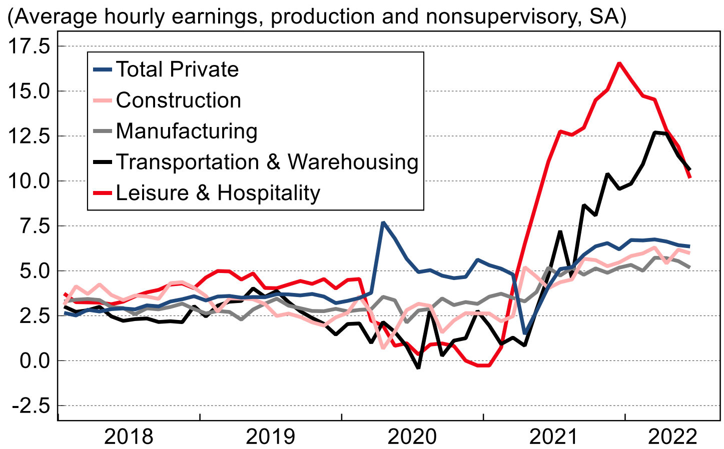
In today's environment characterized by supply-shocks, the Fed will be keen to limit additional inflationary pressures from a strong labor market and will likely maintain aggressive interest rate hikes to reduce demand and achieve the goal of price stability.

WAGES IN SERVICES SECTOR HAVE OUTPACED OTHER INDUSTRIES



Source: Bureau of Labor Statistics, MUFG Bank Economic Research Office

EARNINGS GROWTH HAS SLOWED BUT REMAINS ELEVATED



Source: Bureau of Labor Statistics, MUFG Bank Economic Research Office

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