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MUFG Bank, Ltd.
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The summer ends with solid job growth

02 September 2022

Employment expanded again in August, ensuring that the economy has likely not entered a recession, yet. The latest jobs report further complicates the Fed's path to a soft landing, having to juggle an unclear trajectory of inflation and a strong labor market.

Jobs were added across the board

The labor market has proved to be resilient in the third quarter (Q3) of 2022. Nonfarm payroll employment increased by 315,000 in August, following a slightly downwardly revised 526,000 increase in July. Jobs were added across multiple industries including professional and business services (68,000), health care (48,000), retail trade (44,000) and manufacturing (22,000).

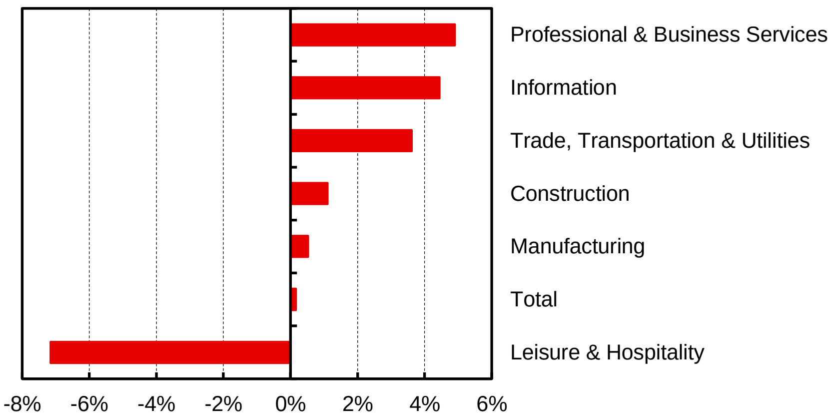
Surprisingly, jobs growth in the leisure and hospitality industry slowed, adding 31,000 jobs in August compared to an average monthly gain of 90,000 in the first seven months of the year. Employment in the industry remains 7.2 percent below the pre-pandemic level. Slower job growth may reflect the tight labor market where labor shortages are most prevalent in in-person services, rather than an indication of slowing labor demand.

The retail trade industry has been reporting mixed signals in the summer of 2022. Large inventory gluts and slower sales have plagued large retailers, but employment growth may suggest improved conditions. Jobs growth in the retail trade industry was driven by supermarkets and grocery stores, department stores, and warehouse clubs/supercenters.

Construction employment remained virtually unchanged as home building slows due to high prices and rising interest rates. Information also experienced little change in August as large companies in the industry face lower ad revenues.

EMPLOYMENT IN HOSPITALITY IS STILL BELOW THE PRE-PANDEMIC LEVEL

(Percent change in employment, Feb 2020 to Aug 2022, SA)

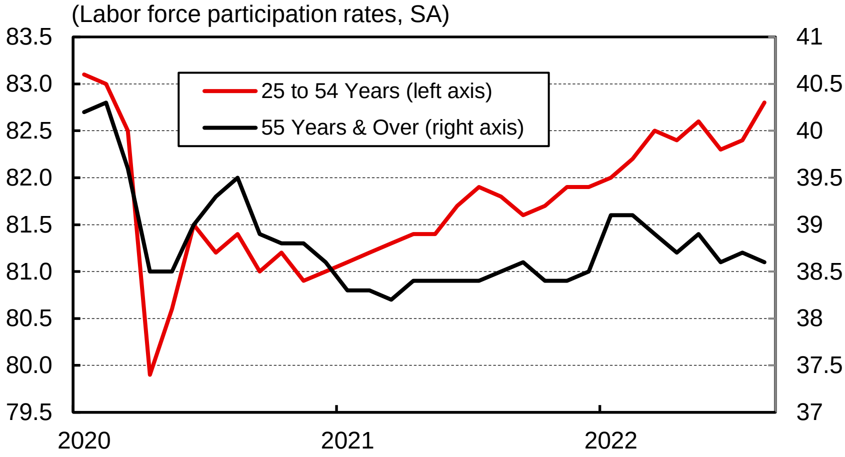


Source: BLS, MUFG Bank Economic Research

The labor market remains tight

The labor force participation rate for prime age workers (25-54 years old) improved to 82.8 percent in August. Prime age workers make up the largest share of employment in the US, allowing the unemployment rate to trickle up to 3.7 percent as new workers entered the labor force. However, participation rates for older workers (55 years and older) have dropped to 38.6 percent with no signs of improving. A significant number of early retirements have kept older workers from re-joining the labor force, keeping participation well below the pre-pandemic level.

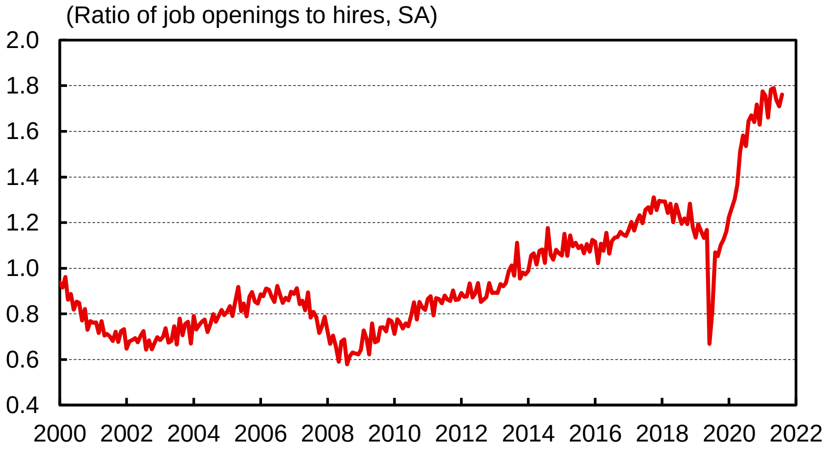
OLDER WORKERS ARE NOT RETURNING TO THE LABOR FORCE



Source: BLS, MUFG Bank Economic Research

Even with a modest improvement in labor force participation, severe labor shortages remain in the US. Job openings increased in July, after three months of decline in Q2 of 2022, and employment grew throughout the year. There continues to be more jobs than workers to fill them. The ratio of job openings to hires, a proxy for average time to fill a position, remains historically high. This suggests that recruitment and retention will continue to be a major issue facing employers in 2022.

AVERAGE TIME TO FILL AN OPEN POSITION REMAINS HISTORICALLY HIGH



Source: BLS, MUFG Economic Research

Signs of a cooling labor market will likely be seen in job openings first, rather than in employment or layoffs. But as of August, there is no clear indication that labor demand won't remain elevated in the coming months. Though modestly declining, the quits rate remains near historic highs at 2.7 percent in July and the layoffs rate remains at an all-time low of 0.9 percent.

Inflation may have peaked in July as supply issues related to energy prices eased, but labor demand remains strong. And since the labor market is unlikely to receive an influx of new workers in the near future, labor shortages will remain well into 2023, placing upward pressures on wages and subsequently prices. Labor demand must fall to make the Fed's two percent inflation target a reality. Although the unemployment rate increased slightly, the Fed may feel comfortable raising rates another 75 basis points in September.

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