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The third quarter ends with a strong labor market

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The September jobs report showed continued growth in employment and a drop in the unemployment rate. While there are some signs of cooling, the labor market remains tight. The Fed will likely not alter their projected path of additional interest rates hikes in 2022.

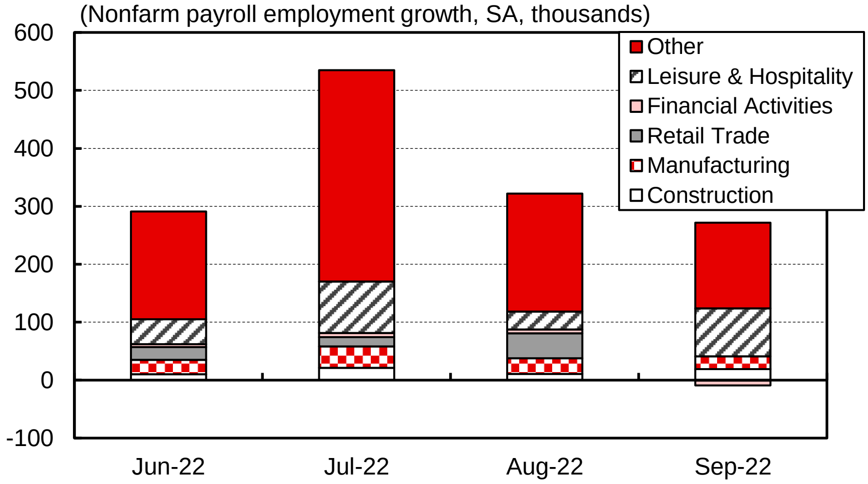
Employment gains were robust in certain industries

There are some signs that the labor market is cooling, but not by nearly enough to warrant a change in course by the Federal Reserve. Nonfarm payroll employment increased by 263,000 in September, in line with most estimates. Indeed, this is the smallest monthly change since April 2021, but growth in certain industries suggests that demand in the overall economy is still relatively strong.

The leisure and hospitality industry drove employment gains in September, adding 83,000 jobs, of which 60,000 were in food services and drinking places. Labor Day (September 5) may have marked a turning point, with many employers instituting return-to-office policies. The number of employed persons working remotely because of COVID-19 dropped from 6.5 percent in August, to 5.2 percent in September. More workers commuting to the office likely contributed to greater consumption in city centers, helping drive employment gains in restaurants and bars. Overall employment in the leisure and hospitality industry is still down 6.7 percent compared to the pre-pandemic level (February 2020), suggesting that there is more room for growth in the coming months.

Employment in professional and business services continued to expand, adding 46,000 jobs and manufacturing added 22,000 jobs. Financial activities experienced a small drop in employment (-8,000) while other major industries were little changed.

JOBS IN THE LEISURE AND HOSPITALITY INDUSTRY CONTINUE TO GROW



Source: BLS, MUFG Bank Economic Research

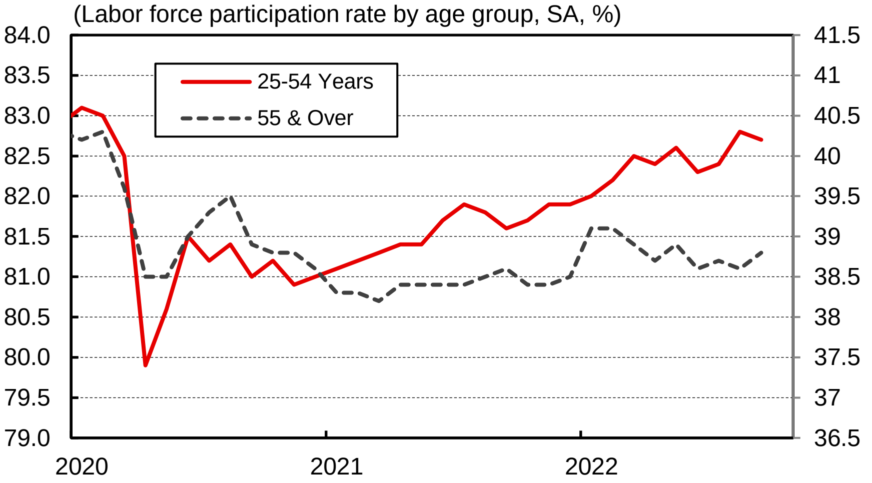
Surprisingly, employment in construction continued to expand at a steady rate, adding 19,000 jobs in September. Majority of the growth occurred for specialty trade contractors which may be involved in finishing previously started construction projects rather than new ones. New constructing spending, especially for single-family homes, has been declining amid rising interest rates and falling demand.

An unwelcomed drop in unemployment

The Fed's fight against inflation rests heavily on the unemployment rate rising, likely above 4 percent. The view is that fewer employed persons will lead to less consumption, less overall demand, and lower inflation. In September, the civilian labor force was little changed, but the number of unemployed persons fell, driving the unemployment rate down to 3.5 percent. This will likely be interpreted as a sign that additional interest rates hikes are needed to quell overall demand in the US economy.

The labor force participation rate was little changed, standing at 62.3 percent overall. Participation for prime age workers (25-54 years old) fell slightly to 82.7 percent but the drop was offset by a small increase in participation of older workers (55 & older). The labor force is not increasing at a rate that will notably improve labor shortages, but demand is beginning to fall.

PRIME AGE WORKERS ARE SLOWLY RETURING BACK TO THE LABOR FORCE

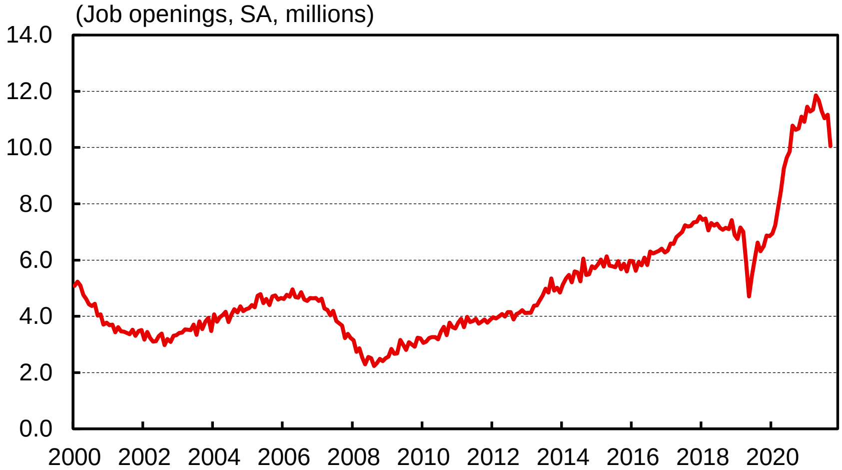


Source: BLS, MUFG Bank Economic Research

The most significant sign of a cooling labor market and an easing of labor shortages comes from the August JOLTS report. Job openings dropped by 1.1 million, the largest monthly decline since the start of the pandemic. While this news is welcomed by the Fed in their fight against inflation, the labor market remains tight by historical standards. The ratio of job openings to hires, a proxy for average time to fill an open position, remains well above the pre-pandemic rate. This suggests that employers are still facing recruiting difficulties. Additionally, high turnover remains problematic with the quits rate standing at 2.7 percent in August.

The Fed will likely interpret the labor market as being strong enough to withstand additional interest rate hikes. The September JOLTS report will be released in time for the next FOMC meeting in November, with results potentially influencing the magnitude of the next interest rate increase.

LABOR DEMAND IS STARTING TO COOL AS JOB OPENINGS DROP



Source: BLS, MUFG Bank Economic Research

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