Little give in the labor market

2 June 2023

- Employment growth remained strong in May for both goods and services industries, while the unemployment rate ticked up to 3.7%. Labor force participation rates continued along the same trend, increasing modestly for prime-age workers while remaining flat for older workers. While the overall labor market remains strong, manufacturing appears to be the chink in the armour. Growth in manufacturing employment has been flat in 2023 with no indication of a rebound anytime soon.

- Job openings rebounded and hiring accelerated in April. The vacancy to unemployed ratio now stands at 1.8, suggesting a very tight labor market. Despite all of this, the Fed may still pause additional interest rate hikes at the next FOMC meeting to gauge the impact of monetary policy lags.

Jobs continue to be added in the labor market

Once again, the labor market has defied expectations, adding 339,000 jobs in May, following an upwardly revised growth of 217,000 jobs in March and 294,000 jobs in April. Employment is expanding at a historically strong rate, despite the rapid monetary tightening cycle that started over a year ago.

Professional and business services continued to expand, adding 64,000 jobs in May. Government also had a robust expansion, adding 56,000 jobs. Employment in the health care industry is above pre-pandemic levels, but jobs continue to be added (+52,000 in May). Given low substitution and inelastic demand in health care, along with an aging population, we can expect further long-term growth.

The most evident cracks in the labor market are in manufacturing, where employment growth has been essentially flat for all of 2023. This is perhaps unsurprising given how consumption and durable goods orders have been slowing for months. The information sector has also exhibited signs of a recession, but employment in the industry resembles more “normalizing” rather than cooling, and the industry is much smaller than manufacturing (2% vs 8% of employment). Employment in manufacturing will likely be one of the first major industries to crack in the event of a recession.

Strong growth in both services and goods industries in May

Nonfarm payroll employment growth, thousands

Source: BLS, MUFG Bank Economic Research
The unemployment rate ticked up to 3.7% in May, driven by a 7.8% increase in the number of unemployed. This is the largest monthly increase in the number of unemployed persons since the start of the pandemic, but the unemployment rate remains within the 3.4-3.7% range since March of last year.

The labor force participation rate remained at 62.6% in May. The participation rate for prime-age workers (25-54) rose again to 83.4% and is above the pre-pandemic rate and trend. However, this growth was offset by flat growth in participation rate of older workers (55 and over), which stands at 38.4%.

**Older workers are showing no signs of returning**

*Labor force participation rates by age group, %*

---

**Rebounding labor demand**

Job openings rebounded in April, increasing by 358,000. This increase follows 3 consecutive months of sizable declines totalling 1,489,000. Job openings have certainly fallen from their peak but remain very elevated both in level and in relation to unemployment. The vacancy to unemployed ratio stands at 1.8 as of April 2023, down from its peak of 2.0 in April of last year, but well above the pre-pandemic level of 1.2. The labor market remains very tight as demand for workers continues to exceed supply.

The last few months had many hopeful that the labor market may exhibit an “immaculate cooling” where labor demand falls with no impact on the unemployment rate. Unfortunately, there still exists a significant degree of employment mismatch in the labor market, especially considering the disproportionate impact that rising interest rates have had across industries. By most metrics, today’s labor market is still inefficient at allocating workers across industries and geography. And combined with April’s increase in job openings, an “immaculate cooling” is appearing increasingly unlikely.
The Fed may skip hiking in June

Despite the continued strong labor market in May and high levels of inflation presented by both the CPI and PCE, the Fed may still pause interest rate hikes in June’s FOMC meeting. Fed officials have been signalling that a pause may be necessary to assess the impact of “long and variable lags” with which monetary policy operates. Estimates point to a 14-to-18 month lag from when interest rates begin to rise and when the impact is felt in the broader economy. This would make June an opportune time to pause hikes.

However, we can expect the Fed to remain hawkish in their commentary. Given the strength of the labor market and the upward pressure it places on prices, the Fed is likely to explicitly state that further interest rate hikes are still possible, even with a pause in June.
Analyst Certification

The views expressed in this report solely reflect the personal views of Agron Nicaj, the primary analyst responsible for this report, about the subject securities or issuers referred to herein, and such views may not necessarily reflect the thoughts and opinions of MUFG Bank, Ltd. and its affiliates or management team. No part of such analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein.

Disclaimers

The information and views contained herein are not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject MUFG Bank, Ltd. (collectively with its various offices and affiliates, “MUFG Bank”) to any registration requirement within such jurisdiction or country. The information and views contained herein are provided for general informational purposes only, are subject to change, and are not intended to be, nor should be used, or considered, as an offer, or the solicitation of an offer, to sell or to buy or to subscribe to or for securities or any other financial instruments, and do not constitute specific investment, legal, tax, or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of MUFG or its management team. Neither this nor any other communication prepared by MUFG Bank should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective and it does not take into account the specific investment objectives, financial situation, or the particular needs of any specific person who may receive this information. Any information relating to performance contained herein is illustrative and no assurance is given that any indicative returns, performance or results, whether historical or hypothetical, will be achieved. Before entering into any particular transaction, you should consult an independent financial, legal, accounting, tax, or other advisor as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by MUFG Bank. MUFG Bank hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting, or other issues or risks that may arise in connection with any particular transaction or business strategy. While MUFG Bank believes that any relevant factual statements contained herein, and any assumptions on which such statements are based, are in each case accurate, neither the authors nor MUFG have independently verified its accuracy, and such information may be incorrect or incomplete. The information is provided “AS IS”. The authors and MUFG do not warrant the accuracy of the materials provided herein, either expressly or implied, for any particular purpose and expressly disclaims any warranties of merchantability or fitness for a particular purpose. The authors and MUFG cannot and do not guarantee the accuracy, validity, timeliness or completeness of any information or data made available to you for any particular purpose. MUFG Bank may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information and views contained herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and MUFG Bank is under no obligation to ensure that such other reports are brought to your attention.

© 2023, MUFG Bank, Ltd. All Rights Reserved.

About Mitsubishi UFJ Financial Group, Inc.’s U.S. Operations including MUFG Americas Holdings Corporation

The U.S. operations of Mitsubishi UFJ Financial Group, Inc. (MUFG), one of the world’s leading financial groups, has total assets of $332.4 billion at March 31, 2022. As part of that total, MUFG Americas Holdings Corporation (MUAH), a financial holding company, bank holding company, and intermediate holding company, has total assets of $159.2 billion at March 31, 2022. MUFG Americas Holdings Corp. is a registered securities broker-dealer which engages in capital markets origination transactions, domestic and foreign debt and equities securities transactions, private placements, collateralized financings, and securities borrowing and lending transactions. MUAH is owned by MUFG Bank, Ltd. and Mitsubishi UFJ Financial Group, Inc. MUFG Bank, Ltd., a wholly owned subsidiary of Mitsubishi UFJ Financial Group, Inc., has offices in Argentina, Brazil, Chile, Colombia, Peru, Mexico, and Canada. Visit www.mufgamericas.com for more information.

About MUFG and MUFG Americas

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world’s leading financial groups. Headquartered in Tokyo and with over 360 years of history, MUFG has a global network with approximately 2,100 locations in more than 50 countries. MUFG has nearly 160,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to “be the world’s most trusted financial group” through close collaboration among its operating companies and flexibly respond to all the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG’s shares trade on the Tokyo, Nagoya, and New York stock exchanges.

MUFG’s Americas operations, including its offices in the U.S., Latin America, and Canada, are primarily organized under MUFG Bank, Ltd. and subsidiaries, and are focused on Global Corporate and Investment Banking, Japanese Corporate Banking, and Global Markets. MUFG is one of the largest foreign banking organizations in the Americas. For locations, banking capabilities and services, career opportunities, and more, visit www.mufgamericas.com.