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Economic Data Round-Up: Labor holds up as inflation pressures build

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- **The labor market remained steady, for now.** Job creation continued to increase and layoffs remained limited, suggesting underlying resilience. Conversely, hiring appetite appears restrained, hours worked showed little movement, and demand for labor is not as strong. The overall picture points to a market that is holding together, but with no signs of renewed momentum.
- **April inflation indicators came in hot, though largely energy-driven.** Recent inflation prints surprised to the upside, but much of the strength was concentrated in energy and transportation costs rather than a broad-based pickup. Core inflation remained elevated, particularly on the producer side, indicating underlying pressures. The key risk is that sustained energy price strength could begin to spill over into other categories, keeping inflation sticky. With inflation now outpacing real income growth, a higher-for-longer price environment risks eroding demand and weighing on consumption.
- **The monetary policy outlook is becoming more difficult to navigate.** New Fed Chair Kevin Warsh is inheriting an economic backdrop of firm but softening labor conditions alongside uneven inflation pressures, complicating the Fed's path. Sticky price dynamics may limit room to ease, even as slowing income growth momentum raises downside risks to growth, reinforcing a cautious, data-dependent stance.

A steady labor market, except there is little reason to anticipate acceleration

After several months of weather and strike-related volatility, 115,000 jobs were added in April (Chart 1). Some of this growth appears seasonal (e.g., gains in building material and garden equipment retailers), but overall job gains were broadly based. Notably, healthcare and social assistance added 54k jobs, transportation and warehousing added 30k, and retail trade added 22k.

However, we may not have fully left the “low fire, low hire” environment, perhaps now better described as “some fire.” Layoffs remain historically low, however, they are increasing in certain industries. Recent announced cuts have been concentrated in the technology sector, with AI-related spending cited as the leading reason, according to the Challenger report. The March JOLTS data also tracks; layoffs and discharges surged to 2.4% (number of layoffs and discharges as a percent of employment), compared 1.3% a year ago. Layoff rates for professional and business services also increased to 2.4% compared to 1.7% in March 2025. The recent shutdown of Spirit Airlines is also expected to weigh on job growth in May.

Meanwhile, hiring remains subdued. NFIB Small Business hiring plans saw a slight uptick but remained weak (Chart 2). Moreover, although declined in April, the job openings-to-hires ratio remained above 1, indicating that job openings still exceed hires. This suggests that while firms continue to post vacancies, these are not translating into hiring at the same pace, pointing either to hiring frictions (such as skill mismatches or compensation gaps) or a reduced urgency to fill positions. Amid geopolitical uncertainty

and rising inflation tied to the U.S.–Iran conflict, firms are likely to remain cautious in hiring, reinforcing the view that reduced urgency may be driving the gap.

Additionally, average weekly hours have remained flat since the start of the year, reflecting neither a push to expand nor a clear move toward downsizing.

Chart 1: April job gains signal ongoing resilience

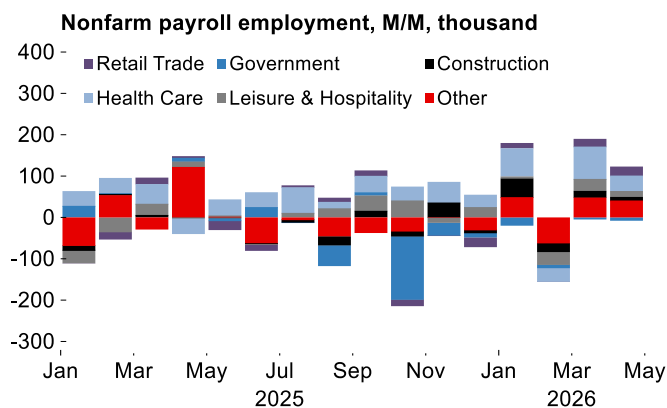
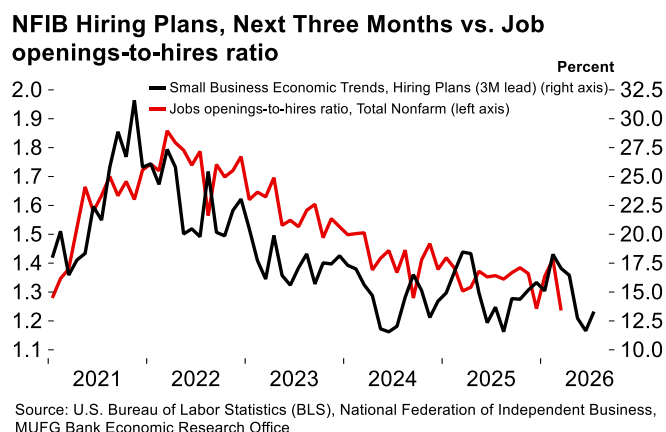


Chart 2: Plans to hire still show some caution



Signs of a cooling labor market are emerging, raising the likelihood that downside risks will come into sharper focus. With surging inflation comes higher input costs and delayed policy rate cuts. Businesses would face tighter financial conditions, and labor may take a hit.

The unemployment rate stood at 4.3% in April, unchanged from the previous month. With unemployment hovering at the 4.0-4.3% mark since last year, we continue to see stabilization in the labor market. However, these readings have been buoyed by a structurally shrinking labor supply, mostly due to rapid retirement and lower immigration. Absent this decline in labor force participation, the unemployment rate would likely drift higher unless hiring reaccelerates meaningfully.

Taken together, recent data suggests the Fed will be put in a difficult position. It is likely for the Fed to place greater emphasis on the inflation side of its dual mandate, while hoping that labor market conditions remain broadly stable.

Energy price surge is driving headline inflation

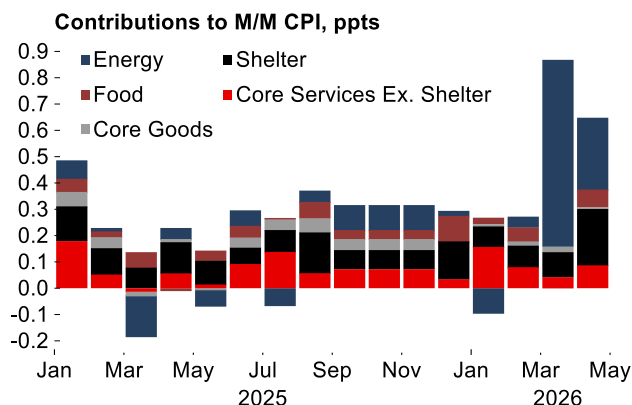
The April CPI reading of 3.8% y/y was the highest it has been since May 2023, which caught much attention, but a more detailed look at the breakdown of the index reveals the surge was mostly attributed to the energy price shock and not much else. Excluding food and energy, core CPI rose to 2.8% y/y, from 2.6% in March.

On a month-on-month basis, CPI rose 0.6% in April, a slower pace than the 0.9% increase in March. The main contributor to the April increase, accounting for over 40% of the increase, was energy (Chart 3). Notably, gasoline prices increased by 5.4% m/m and electricity by 2.1%. The other notable contributor was shelter, though this increase largely reflected a technical catch-up from data collection gaps during the government shutdown in late 2025.

Core goods and services (excluding food and energy) did contribute to the rise in inflation, but not to an alarming extent. Looking at underlying trends, core inflation indexes have remained relatively stable. Core goods prices rose by 1.1% y/y, slightly

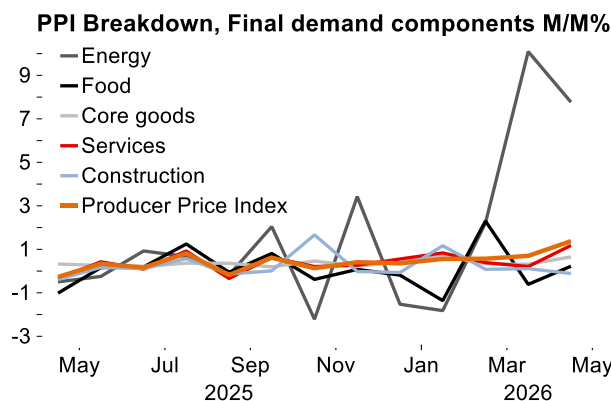
down from 1.2% in March. Meanwhile, core services inflation excluding shelter edged up to 3.3% y/y, from 3.2% in March.

Chart 3: Recent inflation pickups driven largely by energy



Source: BLS, MUFG Bank Economic Research Office

Chart 4: Services keep pipeline inflation firm despite energy volatility



Source: U.S. Bureau of Labor Statistics (BLS), MUFG Bank Economic Research Office

On the producer side, PPI increased by 1.4% m/m in April, pushing year-over-year inflation up to 6.0%. This sharp increase was driven by a jump in margins for final demand services (+1.2% m/m) (Chart 4), particularly in transportation and warehousing, alongside a surge in energy prices (+7.8% m/m). Excluding food, energy, and trade, PPI rose 0.6% m/m, up from 0.2% in March.

Accounting for nearly 60% of the increase, the rise in services costs (from +0.2% in March) suggests inflation may remain sticky in the near term. Unlike a goods driven PPI, which would point to supply chain disruption, a services driven measure signals inflation stemming from pricing power and widening margins. In other words, strong demand for services is allowing businesses to raise prices well above costs.

This shift in pricing behavior generally adds upward pressure to the broader CPI as businesses tend to pass services costs onto the consumer.

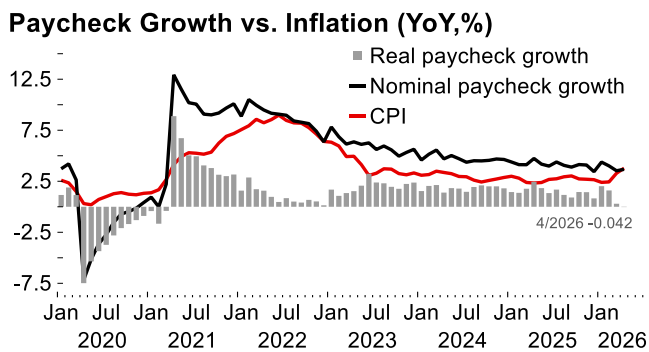
A rise in underlying inflation trends and outpaced wage growth would drag consumer spending

The April labor market and inflation indicators imply we might be at an inflection point. For the first time in three years, CPI rose above average hourly earnings growth, signaling that nominal wages are no longer keeping pace with the cost of living.

Using a CPI-adjusted paycheck growth proxy (a combined growth of average hourly earnings, average hours worked, and employment), we see that real paycheck growth was flat (Chart 5). While the recent advance retail sales data posted another increase in April, the flat real paycheck growth suggests household purchasing power could stall.

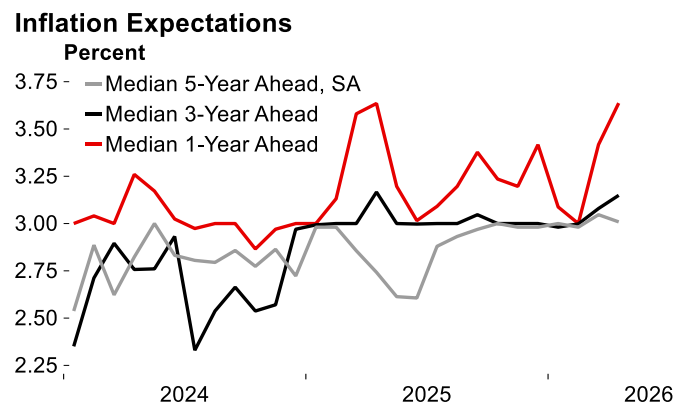
At the same time, consumers expect prices to remain elevated in the near term (Chart 6), reinforcing the risk of softer consumption momentum and a more fragile growth backdrop.

Chart 5: Real paycheck growth stalls as wage gains are offset by inflation



Note: The paycheck growth proxy is calculated as the combined growth in average hourly earnings, average weekly hours, and payroll employment (i.e., a proxy for aggregate wage income). Real paycheck growth uses CPI for inflation adjustment.
Source: U.S. Bureau of Labor Statistics (BLS), MUFG Bank Economic Research Office

Chart 6: Consumer inflation expectations are on the rise



Source: Federal Reserve Bank of New York, MUFG Bank Economic Research Office

What this all means for monetary policy

The Fed is facing a delicate balance between still-elevated inflation pressures and a somewhat stable labor market, making near-term decisions less straightforward. The latest policy meeting reflected this tension (four dissents on the recent decision), with diverging views among policymakers, and a preference to hold rates steady while assessing incoming data. While the official statement retained an easing bias, recent FOMC minutes suggest a growing shift toward a more neutral, two-sided stance.

Looking ahead, the Fed is likely to remain on hold for the remainder of the year, maintaining a patient stance as it monitors whether inflation pressures, particularly those driven by energy and external shocks, begin to ease. If labor market momentum continues to soften and income growth slows, conditions could gradually shift toward a resumption of rate cuts, but only once inflation risks show clearer signs of moderating.

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