Truist Advisory Services, Inc.

Economic commentary from the Investment Advisory Group

U.S. economy adds more jobs in April though cooling trend is clear

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Executive summary: U.S. payrolls in April added 253,000, well-above the consensus of 190,000. However, downward revisions to the prior two months sliced 149,000 jobs, pulling down the six-month average. Meanwhile, the unemployment rate dipped to 3.4%, matching the cycle low.

While the overall pace continued to cool, there were also signs of resilience. For instance, all 10 major industry groups added workers during the month for the first time since July ’22. The monthly pace of average hourly earnings ticked higher, and hours worked held steady. That said, we’d attribute much of that to the typical seasonal upswing of activity with warmer weather.

Yet, the labor market’s cooling trend becomes more evident when coupled with other labor market data, such as the recent bump higher in weekly jobless claims, the decline in job openings, and fewer workers quitting voluntarily.

Given the resilience, this report appears to validate the Federal Reserve’s (Fed’s) decision to hike rates this week strictly from an inflation standpoint. That said, we maintain our view that the Fed’s future policy decisions hinge on broader inflation data, which remain hotter than anyone is comfortable with.

Component	April	Prior month	Six-month average	Comment
Change in payrolls	253,000	165,000	277,800	Net revisions subtracted 149K from February and March. The pre-pandemic 3-year average was 177K/mo.
Unemployment rate (U-3)	3.4%	3.5%	3.5%	Slipped in March as 480,000 workers re-entered the workforce but is up from the cycle low of 3.4% in January.
Labor force participation rate	62.6%	62.6%	62.4%	Rose to the highest level since February 2020, though remains 0.7 percentage points below the December 2019 level.
Average hourly earnings (YoY)	4.4%	4.3%	4.6%	The monthly pace rose 0.5%, a 9-month high. The pace of non-supervisory stayed at 0.4%, but the annual pace cooled to 5%.
Average weekly hours worked	34.4	34.4	34.5	Held steady for a second straight month. Manufacturing hours fell to 40.2 while overtime hours fell to 2.9.

Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

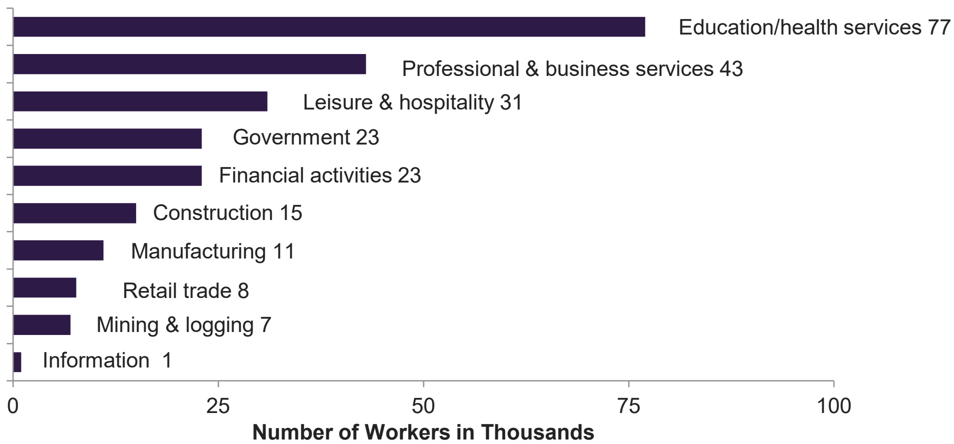
A review of the major industry trends

Private payrolls increased by 230,000, while government payrolls added 23,000, the fewest in four months. Service-providing industries added 197,000 workers, the most in three months, and goods producers chipped in 33,000 workers.

Additionally, the number of voluntary part-time workers increased by 363,000 in April, recovering more than half of the 650,000 lost during March and February. Still, it was a large decline in a two-month period and could indicate employers trimming part-time workers, which typically involves little or no severance benefits.

All 10 major industry groups added workers during the month for the first time since July '22.

Monthly change by major industry group (in thousands)



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Education/health care added the most jobs in April, driven mostly by health care. Of those, nearly a third were at doctors' offices.

Within professional & business services, roughly a quarter of the new jobs were computer related. However, temporary help services shed 23,300 workers, the fifth decline in the past six months. Nearly 140,000 workers have been let go over that span.

Leisure & hospitality cooled dramatically, hiring 31,000 workers in April, the fewest in 28 months. Roughly 80% were by restaurants, which hired 24,800 to extend an impressive stretch of job gains to 28 months. While there weren't job cuts, most of the subindustry groups appear to have simply hired fewer workers than their prior trend.

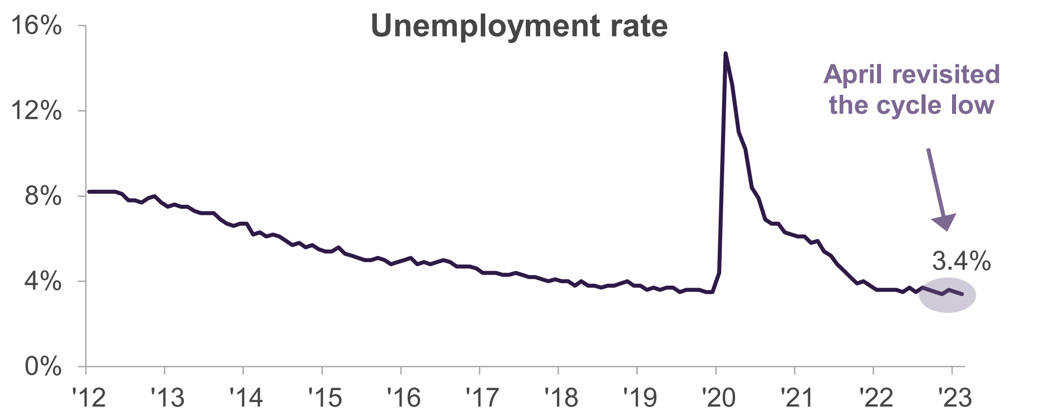
Unemployment rate dipped, but wages ticked up and hours worked held steady

The unemployment rate edged down to 3.4% in April, matching the cycle low, from 3.6% in February. The cycle low was 3.4% this past January, which was also the lowest level since May 1969.

The labor force added 480,000 workers in April, the fourth-consecutive monthly increase. The labor force participation rate stayed at 62.6%, its highest level since February 2020. However, it remains 0.7 percentage points below the December 2019 level.

Average hourly earnings rose 0.5% month over month and increased 4.4% from a year ago, which remains above the pre-pandemic rate of 3.0%.

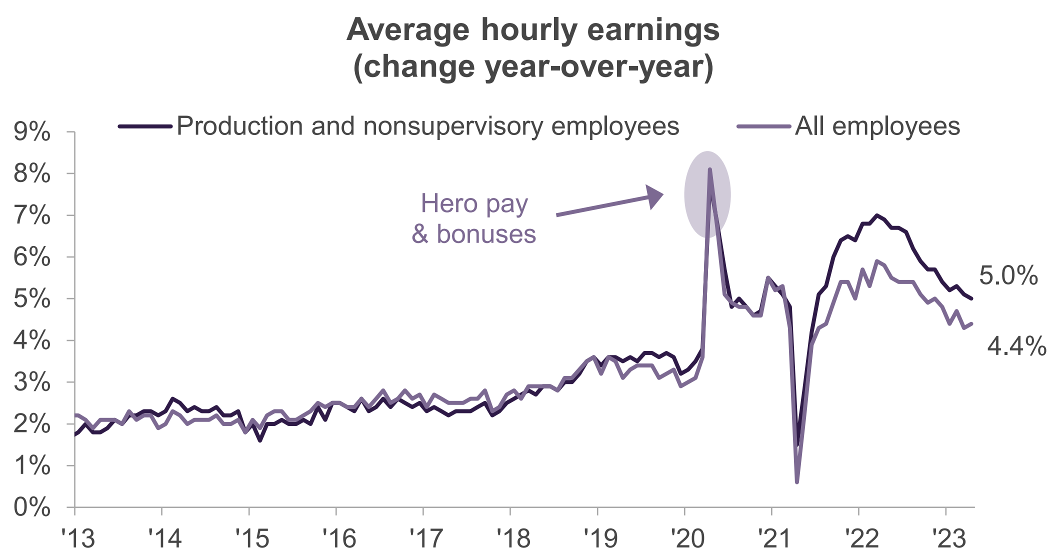
The unemployment rate dipped to 3.4% in April from 3.5% in March.



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

The pace of average hourly earnings for rank & file workers—officially known as production & nonsupervisory employees—rose 0.4% during April, holding steady for the third consecutive month. It rose 5.0% on a year-over-year basis, significantly above its pre-pandemic rate of 3.2%. This is important since production & nonsupervisory employees are the bulk of all employees and where most of the dramatic post-pandemic wage gains have been concentrated.

The annual pace of average hourly earnings for production rose but the pace for nonsupervisory employees continued to cool in April.



Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics

Hours worked—officially known as average weekly hours worked for all employees—held steady at 34.4, which is in-line with the pre-pandemic 10-year average. Within manufacturing, hours worked ticked down to 40.2 but overtime hours held steady at 2.9 for a second month in a row. Both are roughly in-line with their respective long-term averages.

Our take

This is yet another report showing that the labor market is cooling from very strong levels. It reflects solid overall demand, which is largely holding up, though cooling from 2021 and 2022 levels.

Moreover, there is additional evidence that the labor market is cooling. For instance, weekly jobless claims and continuing claims bottomed in the third quarter of 2022 and are increasing from their lows. Similarly, companies have fewer job openings, while fewer workers are voluntarily quitting (the so-called quit rate). The cooling has also shown up in the hiring components in other surveys, including the ISM manufacturing and services surveys as well as the Federal Reserve's regional conditions surveys in the districts.

As far as monetary policy, the Fed largely stuck to the proverbial script, delivering the expected quarter-point rate hike this week. We maintain our view that, while it has clearly peaked, elevated inflation remains public enemy number one and will dictate the Fed's future actions. Thus, while we believe this week's rate hike likely marks the end of the Fed's hiking cycle, we can't completely rule out a June hike if inflation doesn't continue cooling.

More importantly, we maintain our view that Fed policy is being guided by scar tissue—from prematurely loosening policy in the past. While rate cuts are plausible in the event of a sharper recession, we maintain our view that the coming economic slowdown may be relatively mild. Frankly, the Fed is hamstrung by inflation.

A recession remains our base case as dramatically higher interest rates and now tighter credit conditions place additional stress on consumers and businesses going forward. We also believe that the Fed will keep interest rates higher for longer.

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