RBC Economics & Thought Leadership

Daily Economic Update

November 4, 2022

U.S. job growth slowing but still above trend in October

- Payroll employment added 261k jobs in October
- The unemployment rate edged up to 3.7%, still close to multi-decade lows
- Tight labour market conditions supporting further interest rate hikes from the Federal Reserve with at least another 50 bp increase in the fed funds target expected in December

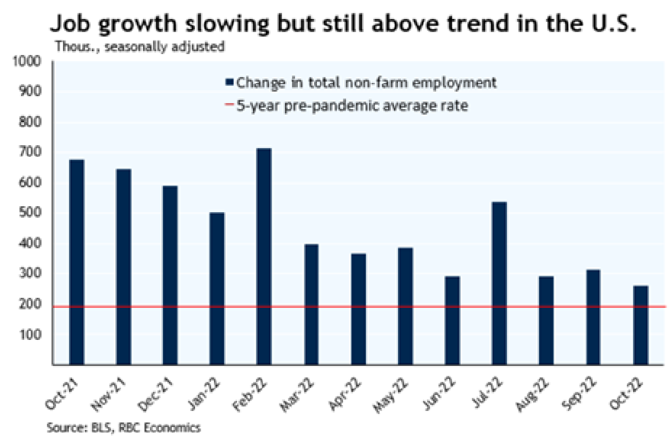
Another robust 261k increase in payroll employment in October points to continuous strength in the U.S. labour market. The move was slower than the ~420k average monthly increase year-to-date to September, but nonetheless above consensus expectations for a smaller 200k increase. Sectors that saw notable job gains include health care (+53k), professional and technical services (+43k) and manufacturing (+32k). The unemployment rate edged up to 3.7% but is still around multi-decade lows. And labour demand continues to outpace the existing stock of unemployed workers, which is especially true for service sectors like leisure and hospitality where labour supply is still far below pre-pandemic levels. Wages have also surged as a result of tight labour market conditions, although the pace of wage increases have decelerated somewhat in recent months, from a peak of 5.6% in March down to 4.7% in October.

Data Summary:

	Aug-22	Sep-22	Oct-22	Oct-22
	m/m change, thousands			12mth avg
Payroll employment	292	315	261	442
Private	233	319	233	421
Public	59	-4	28	21
Hourly wages (m/m %)	0.3	0.3	0.4	4.7 (y/y %)
		%		y/y change
Unemployment rate	3.7	3.5	3.7	-0.9
U6	7.0	6.7	6.8	-1.4
Participation rate	62.4	62.3	62.2	0.5

Source: Haver, RBC Economics Research

Despite a slower pace of job growth there remains a lot of momentum in labour markets. The number of job openings has been edging lower since March, but at over 10 million in September it's still well above the average level of ~6.5 million in pre-pandemic 2019. Housing markets have retrenched rapidly as interest rates rise, and real consumption expenditure for goods declined in each of the first three quarters of 2022. But offset has come from strong demand for services, and inflation pressures are still running hot and are broadly-based. We expect employment growth will continue to slow but remain positive, and the unemployment rate will edge slightly higher over the remainder of this year. And it will take more convincing signs that broader inflation pressures are easing to convince Federal Reserve officials to slow the pace of interest rate increases. Earlier this week the Fed raised the key fed funds target range by another 75 bp. Our base-case forecast assumes another 50 bp increase in December, but with risks tilting to a larger increase than that.



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