Economic Update

August 4, 2023

Tight US labour market not letting up, yet

- Payroll added 187k jobs in July, below consensus and the average pace of ~225k in the second quarter. The separately released household survey showed the unemployment rate ticked down to 3.5%, suggesting tight labour market conditions in the U.S. are seeing little reprieve.

- Excess demand for labour is resulting in persistently higher wage growth – yearly growth in average hourly earnings has been stuck around 4.5% rate since January. In July wages were 4.4% higher than last year, comparing to the 2.5% run-rate during the decade pre-pandemic.
- Similar to prior months, services sectors accounted for most of the employment growth in July. Notable job gains were seen in health care (+63k), social assistance (+24k) and financial activities (+19k). Hours worked among private sectors ticked lower by 0.2%.
- Still, early signs suggest that labour demand has been slowing from very elevated levels. Fed chair Powell during the post FOMC press conference in July referenced lower job openings and quits rates as signs that labour markets are losing steam.
- **Bottom line:** It remains a question of when, not if weaker labour demand will start to show up in the headline employment numbers. Inflation has been slowing to-date and that takes some pressure off the Fed to respond with further interest rate increases against a still-resilient macro backdrop. The combination of slower inflation before a major pick-up in the unemployment rate has raised hopes for a “soft landing” in the U.S. We continue to see that as a possible but unlikely scenario, given signs

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and expectations that consumer spending will slow, keeping inflation low but at the cost of slower output growth and a weaker labour market.

Data Summary:

	May-23	Jun-23	Jul-23	Jul-23
	m/m change, thousands			*12mth avg*
Payroll employment	281	185	187	280
Private	255	128	172	237
Public	26	57	15	43
Hourly wages (m/m %)	0.3	0.4	0.4	4.4 (y/y %)
		%		*y/y change*
Unemployment rate	3.7	3.6	3.5	0.0
U6	6.7	6.9	6.7	-0.1
Participation rate	62.6	62.6	62.6	0.5
25-54	83.4	83.5	83.4	1.0

Source: Haver, RBC Economics Research