RBC Economics
Daily Economic Update

August 5, 2022

U.S. payroll surprised with a big gain in July

- Payroll employment rose by 528k; the unemployment rate ticked lower to 3.5%
- Labour markets nearing peak conditions; shortages still acute
- Some cooling ahead, as Fed rate hikes erode buying power, slow consumer demand and business activities

The U.S. labour market added 528k jobs in July, more than double consensus expectations and brought the overall employment back above levels pre-pandemic after a long-haul recovery. With all sectors adding jobs, the gain was widespread. It was also more notable in leisure and hospitality (+96k), professional and businesses services (+89k) as well as healthcare services (+70k). Despite larger job gains in recent months, leisure and hospitality remains one of the few sectors where the employment shortfall from pre-pandemic is relatively large. Unsurprisingly then, that's also where the current labour shortages issues have been the most acute. In July wages grew 8.7% above last year for leisure and hospitality and 5.2% for all industries, the latter still significantly higher than the 3.3% annual growth rate in 2019. The unemployment rate ticked slightly lower to 3.5%, also back to February 2020 levels which was among the lowest in over 50 years.

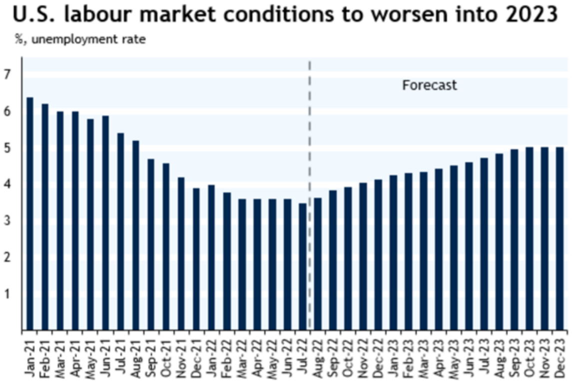
Despite drum-tight conditions at the moment, there are signs that some cooling in labour market activities is on the horizon. Concerns that growth is slowing is starting to impact businesses' hiring demand. Job openings have been trending lower in recent months and the number of initial jobless claims has crept higher since mid-March. In July the amount of involuntary part-time workers rose by 303k, mainly reflecting an increase among those whose hours were cut due to slack work or business conditions. Stronger hiring demand, especially among industries that are travel and hospitality related has and will continue to support job gains over the summer. But with unemployment rate this low, further improvements will be increasingly hard to come by. Instead, Fed rate hikes aiming to cap inflation should work to further erode spending power, triggering a pullback in broader consumer demand. That should instill some balance back into the labour market before slowing it down more significantly. We expect the unemployment rate to rise marginally this year, and to 4.9% by the end of 2023.

Data Summary:

	May-22	Jun-22	Jul-22	Jul-22
	m/m change, thousands			*12mth avg*
Payroll employment	386	398	528	512
Private	331	404	471	495
Public	55	-6	57	17
Hourly wages (m/m %)	0.4	0.4	0.5	5.2 (y/y %)
		%		*y/y change*
Unemployment rate	3.6	3.6	3.5	-1.9
U6	7.1	6.7	6.7	-2.5
Participation rate	62.3	62.2	62.1	0.4

Source: Haver, RBC Economics Research

U.S. labour market conditions to worsen into 2023



Source: Bureau of Labor Statistics, RBC Economics

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