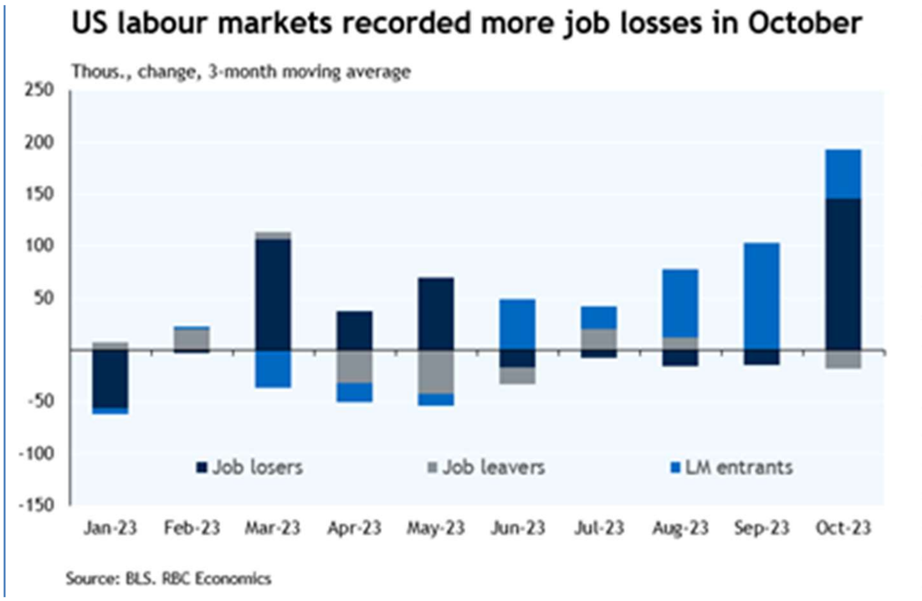
November 3, 2023

Tight U.S. labour markets continued to ease in October



- U.S. job growth slowed marginally in October to 150k. That was down from 297k in September and brought the average monthly pace of increase in employment this year to 239k, still well above the 166k average pace in 2019.
- Similar to prior months, strength in service sectors and government hiring powered the payroll increase. Health care and local government employment each grew by 58k and 38k, respectively in October. Manufacturing saw 35k job losses, driven by strike activity among auto and parts workers.
- Overall, supply of labour continues to rise at a faster pace than demand can absorb. The unemployment rate ticked up to 3.9% in October despite a lower participation rate. That is up from the 3.8% rate in August and September, and 0.4% higher than July.
- Concerningly, more than all of the rise in unemployed workers in October was accounted for by job losers instead of labour market new and re-entrants. That's different than earlier months when the increase in the unemployment rate was largely driven by longer job search times rather than higher layoffs.
- Normalizing demand-supply balance in US labour market continues to allow wage pressures to cool. Reported growth in average hourly earnings for private employees dropped to 4.1% year over year in October. That's still above the ~3% rate of growth in pre-pandemic 2019 but was much lower than the peak of 5.9% in spring of last year. summer.

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- **Bottom Line:** After months of leading indicators (including slower job openings, a lower quit rate, and deteriorating consumer labour market confidence) pointing to cooling labour demand in the US, softer conditions are showing up more significantly in headline numbers. Alongside the pause in interest rate hike earlier this week, the Federal Reserve noted progress made on moderating wage growth, but also highlighted excess demand for labour still remains. Indeed, there is clearly still momentum left in hiring activity. But clearer signs of moderating wage growth and low inflation readings mean the Fed should not need to hike again in the current cycle, while waiting for softening economic conditions to emerge elsewhere.

Data Summary:

	Aug-23	Sep-23	Oct-23	Oct-23
	m/m change, thousands			*12mth avg*
Payroll employment	165	297	150	243
Private	114	246	99	191
Public	51	51	51	53
Hourly wages (m/m %)	0.3	0.3	0.2	4.1 (y/y %)
		%		*y/y change*
Unemployment rate	3.8	3.8	3.9	0.2
U6	7.1	7.0	7.2	0.5
Participation rate	62.8	62.8	62.7	0.5
25-54	83.5	83.5	83.3	0.8

Source: Haver, RBC Economics Research