Daily Economic Update

October 7, 2022

U.S. labour markets nearing peak conditions in September

- Payroll employment added 263k jobs, the slowest pace since December 2020
- Market still tight with the unemployment rate lower at 3.5%
- Labour demand already scaling back as wage growth decelerates and job openings fall; incoming Fed rate hikes to further slow hiring

The 263k increase in U.S. payroll employment in September was the slowest since April 2021, when job growth was still at the mercy of rampant virus spread. Since then, surging demand for goods, services and the labour that work to produce them has led to a remarkable rebound in the labour market, pushing the unemployment rate – at 3.5% in September - to levels similar to the multi-decade lows of early 2020. Sectors that saw notable gains in September include leisure and hospitality (+83k) and health care (+60k). Employment in health care services was also above its pre-pandemic level for the first time, whereas for leisure and hospitality it was still falling short by over a million. Still, with risk of a recession looming, consumer spending on goods slowing, and business confidence deteriorating, there are signs that labour market conditions may have peaked and could soon head for a turn.

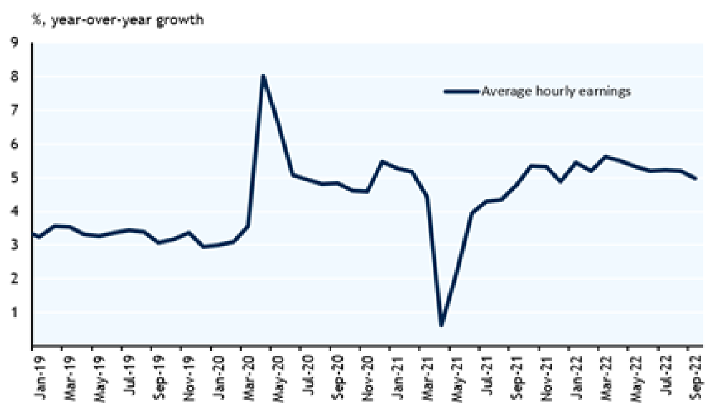
Indeed, demand for labour looks to already be slowing in the U.S., as job openings dropped sharply lower in August. The decline of over a million was the largest since the onset of the pandemic. Growth in wages, although still elevated at 5% year over year in September has also been slowing since March this year. It will still take time for existing excess demand to be absorbed – job openings despite the decline in August were still over 40% above 2019 levels. That means in the coming months we'll likely continue to see employment count increase, albeit at a slower pace. The Fed's dot plot in July suggests that there will be another outsized rate hike of 75 bps in November. We don't think today's payroll data will move the needle significantly. Rather, another likely tick higher in core inflation next week could cement the outsized hike. Overall, we still anticipate Fed rate hikes to trigger a larger pullback in consumption, cooling overheating labour demand and pushing the unemployment rate higher in 2023.

Data Summary:

	Jul-22	Aug-22	Sep-22	Sep-22
	m/m change, thousands			*12mth avg*
Payroll employment	537	315	263	474
Private	448	275	288	460
Public	89	40	-25	14
Hourly wages (m/m %)	0.5	0.3	0.3	5 (y/y %)
		%		*y/y change*
Unemployment rate	3.5	3.7	3.5	-1.2
U6	6.7	7.0	6.7	-1.8
Participation rate	62.1	62.4	62.3	0.6

Source: Haver, RBC Economics Research

Wage growth still elevated but trending lower in the U.S.



Source: BLS, RBC Economics

Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639
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