

Economic Briefing

6 May 2022

US labor market remains robust

U.S. employment rose by 428 thousand in April, underlining that the labor market is robust. In view of the continuing high demand for labor, the risk of a wage-price spiral is growing. The Fed is therefore stepping on the brakes more vigorously.

The data,...

In April, job growth in the U.S. amounted to 428 thousand, exactly in line with the March result and about in line with expectations (consensus 380 thousand, Commerzbank forecast 350 thousand). The unemployment rate remained at 3.6%.

...the background

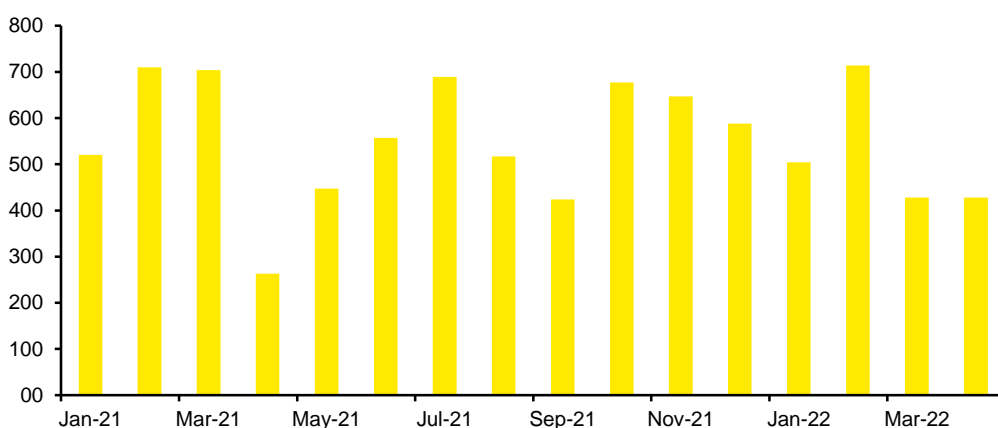
The US labor market proved robust in April, with another strong increase in jobs (Chart 1). The report thus puts the decline in GDP in the first quarter into perspective. This decline was due exclusively to significantly higher imports and lower inventory buildup. By contrast, domestic final demand increased strongly.

The employment figures offer hardly any signs of a weakening momentum on the labor market, which the Fed would like to see. The most likely sign in this direction is the fact that the data for the previous months were revised downward for the first time in a year, by a total of 39 thousand jobs.

However, the results of the separate household survey, from which unemployment rates are calculated, fell short of expectations. Surprisingly, unemployment did not fall further despite the fact that the labor supply actually decreased by 363 thousand. However, the data from this survey are less reliable. It is therefore not possible to judge whether a new trend is emerging here on the basis of a single month.

In a tight labor market, average hourly earnings increased by 0.3% from March. The year-on-year rate edged down slightly from 5.6% to 5.5%. However, more meaningful wage indicators had recently increased, so it is probably too early to declare a trend reversal here as well.

Chart 1 - robust employment growth
nonfarm payrolls, month-on-month change in %



Source: BLS, IHS, Commerzbank Research

The Fed steps on the brakes harder

Employment growth remains high. In addition, companies still offer more than 11.5 million open jobs, indicating unchanged robust demand for workers. This demand is drawing from an increasingly empty pool of available labor, which is likely to keep wage pressures high. There are still no clear indications that the overheated labor market is cooling. The Fed has responded by stepping on the monetary brakes harder, raising key interest rates by 50 basis points on Wednesday. In addition, Fed Chairman Powell has announced further big (i.e. 50 bp) rate hikes. We expect the upper bound

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of the fed funds target range to stand at 3.00% at the end of the year, which would represent an increase of 275 basis points since the end of 2021.

Table 1 - US employment report

	Apr-22	Consensus	Mar-22	Feb-22	Jan-22	six month average
Nonfarm payrolls	428	380	428	714	504	552
Unemployment rate	3.6	3.5	3.6	3.8	4.0	3.9

Source: BLS, Bloomberg, IHS, Commerzbank Research

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