# Weekly Economic Update—April 10th, 2023

The all-important jobs report on Friday capped a highly satisfying week for the Federal Reserve. For one, there were no additional disasters on the banking front, further easing contagion fears and relieving the Fed of a key distraction in its pursuit of an appropriate inflation-fighting policy. For another, the preponderance of data so far for March suggests that the goal of bringing inflation under control without causing serious damage to the economy is becoming more of a reality. To be sure, the economy rarely changes in a linear fashion in response to policy nudges. When policy sends interest rates up as dramatically as it has over the past year, going from near zero to 5 percent in record time, the potential for overshooting desired goals as the lagged effects kick in is more likely than not.

That said, the Fed's primary objective of cooling off a red-hot job market is bearing fruit. Three key indicators of labor market trends were released this week, and all pointed in the same direction. Job openings fell below 10 million for the first time since May 2021; and while those figures from the Labor Department's JOLTs report are for February, they are a snapshot for the end of the month. According to the job recruitment firm, Indeed, new job postings continued to decline in March, falling nearly 4 percent through the 25th of the month. Meanwhile, revised data on unemployment claims reveal that about 75 thousand more unemployed workers have been collecting benefits over the past 10 weeks than previously estimated. The total number of continuous claims, at 238 thousand, is still low by historical standards and well below the 400 thousand usually seen during recessions. But the new data indicates that the job market is not as tight as had been thought.

Importantly, Friday's jobs data for March came in as close to a Goldilocks report as possible. Make no mistake. Given the headwinds buffeting the economy this year, the labor market is holding up remarkably well. Overall, the economy created 236 thousand new jobs last month, which is considerably faster than the growth in the labor force, and the unemployment rate slipped 0.1 percent to 3.5 percent. But the March gain was close to expectations and continued the gradual slowing trend that is consistent with a soft landing the Fed is hoping to achieve. Aside from December 2020, when a resurgence of the pandemic clobbered the job market by slicing 268 thousand workers from payrolls, the 236 thousand increase in March was the smallest jobs gain of the pandemic recovery, following increases of 326 thousand in February and 472 thousand in January. The totals for the previous two months were revised down by 17 thousand.

Unsurprisingly in light of the post-pandemic shift in demand from goods to services, all of the gain last month was in the service sectors, paced by a 72 thousand increase in leisure and hospitality payrolls, where labor shortages had long been the most acute. While total payrolls are now more than three million above their pre-pandemic peak, leisure and hospitality employment is still 368 thousand short of where it was in February 2020. But the shortfall has narrowed markedly, and the industry probably needs fewer workers than it did three years ago. That's partly because it has learned to better serve customers with a leaner staff thanks to the greater use of technology, as evidenced by the ever-growing presence of robotics at hotels and airports.

Throughout its aggressive rate-hiking campaign, the Fed hoped to get more help from the supply side to bring inflation under control. That would alleviate the need to exert even more downward pressure on demand – and potentially throw more workers out of jobs – by continuing to jack up interest rates. Thankfully, it received much-needed support from the production side, as supply-chain constraints have mostly cleared up and goods have become readily available throughout the economy. Indeed, with the notable exception of autos, inventories are now too high relative to sales, prompting widespread discounting of merchandise to clear shelves. This, together with shifting consumer buying habits towards services, has contributed to a powerful disinflationary trend for goods.

Conversely, service price increases have remained stubbornly high, largely because of a chronic labor supply shortage that has stoked upward pressure on wages. But the Fed may finally be getting the supply side help from the labor market as well as 480 thousand workers have come off the sidelines to join the workforce last month. One of the more encouraging details in the March jobs report is the 0.1 percent increase in the labor force participation rate to 62.6 percent, the highest since March 2020. Driving the increase is the heart of the labor force, the prime 25-54 age group, where the participation rate among men increased from 88.9 percent to 89.1 percent, also the highest since March 2020. It's been a struggle to get prime age men back to the labor force, whereas women in that group had climbed above the 77.0 percent pre-pandemic peak in February, reaching 77.2 percent.

As more workers join the labor force it becomes easier to fill open positions, reducing upward pressure on wages and, hence, on companies to raise prices to cover the increase in labor costs. That dynamic may be getting underway, as average hourly earnings increased by a subdued 0.3 percent in March, lowering the increase over the past year to 4.2 percent from 4.6 percent in February. True, the annual increase is artificially depressed by the outsized wage increases last spring, which raised the base against which current wages are compared. But the recent trend is telling, as earnings have increased at an annual rate of 3.2 percent over the past three months. The slowing trend is even more pronounced in the private services sector, where the three-month average increase in earnings has tapered off to a squinty annual rate 2.7 percent.

Simply put, the labor market retains plenty of momentum, but weaker job growth in March alongside slowing wage gains will comfort Fed officials that the most aggressive monetary policy tightening in four decades is starting to take effect. Overall, cooler job and wage growth alongside a minor downtick in the unemployment rate and an increase in labor force participation indicate the labor market was better balanced in March. Importantly, the banking shock occurred after data for the jobs report were compiled and, hence, it had little effect on the overall numbers. However, we suspect that the resulting tightening of lending standards will weigh on job creation in coming months.

That said, if the worst of the banking crisis is behind us – a big if – the ultimate effects on the broader economy should be relatively muted. If that's the case, Fed officials will likely retain its focus on wrestling inflation down to its 2 percent target. The slowing in wages is encouraging, but the earnings data in the jobs report is distorted somewhat by compositional changes between lower and higher-paying payroll jobs from month to month. Other wage yardsticks are not as encouraging; the Atlanta Fed's wage tracker, for example, which is not influenced by compositional changes it the workforce is still rising at a 6.1 percent pace. There are still some important job and inflation reports before the Fed next meets on May 3, but unless they show significant downside surprises, we expect the Fed to hike rates once again, albeit by another modest quarter point. That could well be the last of the tightening cycle.

# FINANCIAL INDICATORS

| INTEREST RATES | Apr 10 | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| 3-month Treasury bill | 4.86 | 4.76 | 4.91 | 0.67 |
| 6-month Treasury bill | 4.92 | 4.89 | 5.08 | 1.15 |
| 3-month LIBOR | 5.20 | 5.18 | 5.15 | 1.00 |
| 2-year Treasury note | 3.97 | 4.03 | 4.60 | 2.47 |
| 5-year Treasury note | 3.51 | 3.58 | 3.97 | 2.69 |
| 10-year Treasury note | 3.41 | 3.48 | 3.71 | 2.71 |
| 30-year Treasury bond | 3.62 | 3.65 | 3.71 | 2.72 |
| | | | | |
| 30-year fixed mortgage rate | 6.28 | 6.32 | 6.73 | 4.72 |
| 15-year fixed mortgage rate | 5.64 | 5.56 | 5.95 | 3.91 |
| **STOCK MARKET** | | | | |
| Dow Jones Industrial Index | 33,485.29 | 33,274.15 | 31,909.64 | 34,721.12 |
| S&P 500 | 4,105.02 | 4,109.31 | 3,861.59 | 4,488.28 |
| NASDAQ | 12,087.96 | 12,221.91 | 11,138.89 | 13,711.00 |
| **COMMODITIES** | | | | |
| Gold ($ per troy ounce) | 2,023.70 | 1,986.80 | 1,872.70 | 1,950.40 |
| Oil ($ per barrel) - Crude Futures (WTI) | 80.46 | 75.68 | 76.68 | 97.90 |

| ECONOMIC INDICATOR | Latest Month/Quarter | Previous Month/ Quarter | Two-Months/ Quarters Ago | Average-Past Six Months or Quarters |
|---|---|---|---|---|
| ISM Manufacturing Index (March) | 46.3 | 47.7 | 47.4 | 48.1 |
| ISM Services Index (March) | 51.2 | 55.1 | 55.2 | 53.5 |
| Nonfarm Payrolls (March) - 000s | 236 | 326 | 472 | 320 |
| Unemployment Rate (March) - Percent | 3.5 | 3.6 | 3.4 | 3.6 |
| Average Hourly Earnings (March) - % change | 0.3 | 0.2 | 0.3 | 0.3 |

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