Press Release

Freddy’s Forecast: April Jobs

PAULINA ENCK | MAY 2, 2024

Each month, AAF’s Competition Economics Analyst Fred Ashton predicts the results of the monthly employment survey. This month, Ashton writes:

> On balance, nothing in the recent data suggests the labor market is slowing. Expect payrolls to expand by 240,000 with the unemployment holding at 3.8 percent. Growth in earnings stays steady, rising 11 cents.

See below for his full analysis.

The Federal Reserve’s anti-inflation campaign was dealt another series of body blows since the last jobs report. The March consumer price index came in hotter than expected, rising 0.4 percent while the core personal consumption expenditure price index – the Fed’s preferred measure of inflation – climbed 0.3 percent. On an annual basis, both measures exceeded the Fed’s 2 percent target, registering 3.5 percent and 2.7 percent, respectively. In its policy statement released Wednesday, the Federal Open Market Committee acknowledged that progress in reducing inflation had stalled.

More distressing still is that the Fed must balance its inflation-fighting efforts with fostering maximum employment. Employers added 303,000 workers to the payrolls in March, the fastest pace since May 2023, and lifted the three-month average to its highest level since March 2023 at 276,000. Wage growth increased 4.1 percent from a year ago, averaging more than 4 percent at an annualized rate over the first three months of the year.

The data have undoubtedly added to the Fed’s headache – or, more likely, what must be a full-blown migraine – as inflation and wages have been moving in the wrong direction.

The Fed is hoping that the April jobs report will show some indication that the labor market’s supply-demand imbalance is easing. Demand for labor has outstripped supply for much of the post-pandemic recovery, causing wages to increase at a pace incompatible with the Fed’s 2 percent inflation target. An outward shift of the labor supply curve would help. Both an increase in the size and share of the population in the labor force would shift the curve.

As Fed Chair Jerome Powell noted in his post-decision press conference, the March report showed an uptick in the labor force participation rate from 62.5 percent to 62.7 percent. That’s a start.

Perhaps more important is the effect immigration has had on the size of the labor force. Since March 2023, the labor force grew by 0.7 percent to nearly 168 million. Over that time however, the number of native-born members of the labor force declined by 0.2 percent. An increase of 4.7 percent to 32 million foreign-born participants was more than enough to offset the drop. Foreign-born workers now make up 19.2 percent of the entire labor force. Moreover, these workers have a higher labor force participation rate than their native counterparts. The recent surge in immigration has helped alleviate some of the current supply-demand imbalances. Longer-term, increased levels of immigration will help counterbalance low (and falling) domestic birth rates and an aging population that threaten the supply of labor.

Bottom line: Absent a continued upward trend in labor market supply, a strong headline number and wage gains could spark fears of a wage-price spiral.

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Data from ADP showed that private-sector payrolls expanded by 192,000 in April and data for March were upwardly revised. Yet despite the strong job gains, wage growth was the slowest since August 2021.

JOLTS data showed that job openings fell to the lowest level since February 2021 to 8.49 million, while the quits rate fell to 2.1 percent, the lowest since August 2020. A dip in the quits rate suggests that workers feel less confident in their ability to switch jobs.

The Institute for Supply Management’s manufacturing employment index remained in contraction for the seventh-straight month and jobless claims remained low.

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