Press Release

Freddy’s Forecast: May Jobs

PAULINA ENCK | JUNE 6, 2024

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

> On balance, demand for labor is slowing. Expect payrolls to expand 160,000 with the unemployment rate staying at 3.9 percent. Growth in hourly earnings remains steady, up 9 cents or 0.3 percent.

See below for his full analysis.

In the three years leading up to the pandemic, job gains were generally broad based. No single sector accounted for more than a quarter of all net jobs and five industries contributed at least 10 percent to overall job creation. Only two sectors, retail trade and utilities, experienced job cuts.

Recent data show a different trend. Since January 2023, 75 percent of payroll expansion was driven by three industries: private education and health services, leisure and hospitality, and government.

Strong employment growth in health services and leisure and hospitality is consistent with the ongoing transition to a service economy, as well as an aging population. It’s the government hiring that stands out. Between 2017–2019, monthly government hiring averaged 12,000 new workers or 7 percent of the cumulative change in employment. That share plummeted to 1 percent in the 20 months following the depths of the pandemic. Since January 2023, government hiring has grown at a torrid pace to fill posts left vacant in state and local government, particularly in education. Total government payrolls expanded by an average of 57,000 workers, or 23 percent of the total change in employment each month.

The rapid pace of government hiring has juiced the employment report’s topline number while masking some weakness in the private sector. Manufacturers have added just 27,000 jobs in the past 16 months, while the information and transportation and warehousing sectors have shed jobs.

If the pace of government hiring continues to taper, as it did in the April report, the topline number will likely suffer. This could be good news for the Federal Reserve as the overall pace of employment in April was more consistent with its 2 percent inflation target, but any weakness from the private sector could set off some alarm bells.

FREDDY’S FORECAST: MAY JOBS

Growth in nonfarm payrolls downshifted in April. Employers expanded payrolls by 175,000, a much slower pace than the 269,000 averaged over the first three months of the year. The unemployment rate remained below 4 percent for the 27th consecutive month, despite ticking up from 3.8 percent to 3.9 percent. Wages grew a modest 0.2 percent.

Since the last report, data from ADP showed private-sector payrolls grew by 152,000 in May, the slowest pace since January. Data for April was revised down by 4,000 to 188,000. Manufacturers shed 20,000 jobs while the information sector cut 7,000. Hiring in leisure and hospitality decelerated to 12,000 after averaging nearly 47,000 over the first four months of the year.

The slower-than-expected gains in private payrolls mirrored other indicators that suggested labor demand is cooling. Perhaps it is a sign that the Fed's anti-inflation campaign is working.

The JOLTS report showed that the number of job openings fell to 8.06 million, its lowest level since February 2021. The ratio of job vacancies to the number of unemployed dipped to 1.2, the lowest level since June 2021. Among the sectors that saw a decline in the number of vacancies were health care and social assistance (-204,000), leisure and hospitality (-109,000), and government (-72,000).

Reports from the Institute for Supply Management indicated that service-sector employment remained in contraction, albeit at a slower pace than in the prior month. Manufacturing employment regained expansion territory, helping to offset some of the losses in services.

A survey from the National Federation of Independent Business showed small business hiring plans over the next three months hovered around the near-term low set in May 2020, pointing to a slowdown in hiring.

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