US Daily: April Payrolls Preview (Hill)

- We estimate nonfarm payrolls rose 250k in April (mom sa), above consensus of +182k but a slowdown from the +345k average pace of the last three months. We believe high but falling labor demand more than offset continued layoffs in the information and financial sectors and a roughly 25k hiring drag from reduced credit availability. Big Data employment indicators were strong on net, arguing against a large credit drag. The April seasonal factors for nonfarm payrolls have also evolved favorably relative to the pre-pandemic period and represent a tailwind worth 50-100k, in our view.
- We estimate the unemployment rate was unchanged at 3.5% (vs. consensus 3.6%), reflecting a modest rise in household employment and unchanged labor force participation (at 62.6%). We estimate a 0.35% increase in average hourly earnings (mom sa) that boosts the year-on-year rate slightly to 4.25% (consensus is +0.3% and +4.2%). Our forecast reflects waning upward wage pressures and positive calendar effects. Additionally, composition effects have weighed on average hourly earnings growth so far this year—we estimate by 0.09pp on average for the monthly rate—and we expect a more modest drag tomorrow and going forward.

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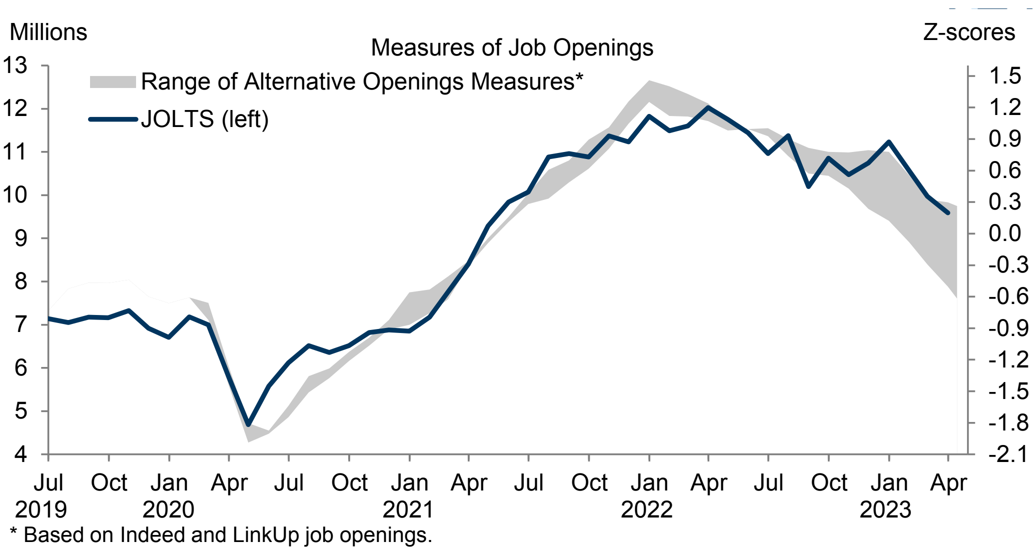
April Payrolls Preview (Hill)

We estimate nonfarm payrolls rose 250k in April (mom sa), above consensus of +182k but below the +345k average pace of the last three months. We estimate private payrolls rose 225k (vs. consensus +156k).

Arguing for a stronger-than-expected report:

- **Job availability.** JOLTS job openings declined by more than consensus expectations in March (-384k to 9.6mn), and online measures have continued to decline on net (see Exhibit 1). But while labor demand is falling, it remains elevated by 0.5-2.5mn relative to 2019 and represents a positive factor for job growth, in our view. Additionally, the Conference Board labor differential—the difference between the percent of respondents saying jobs are plentiful and those saying jobs are hard to get—increased in April (+0.8pt to +37.3).

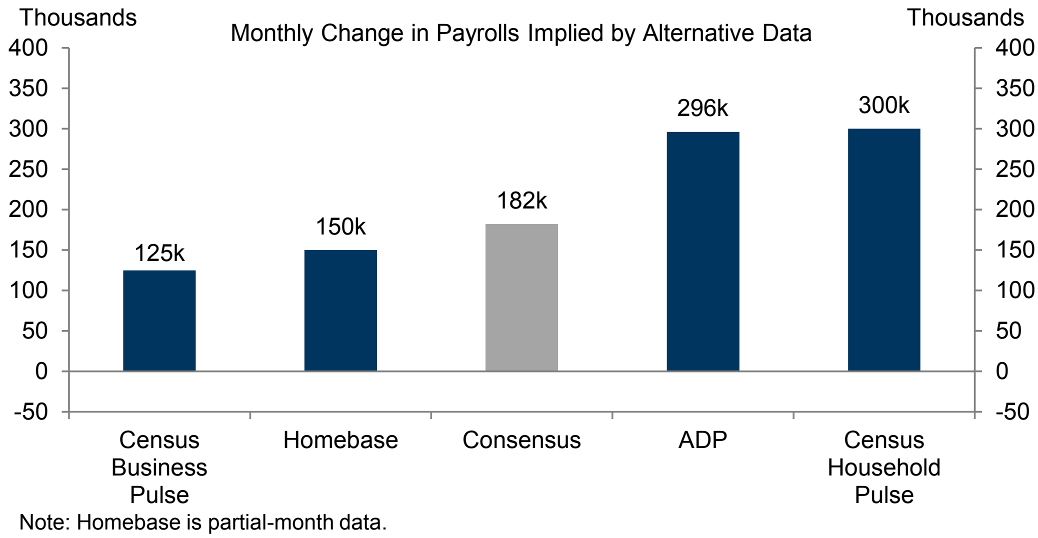
Exhibit 1: Job Openings Declining but Still Plentiful



Source: Indeed, LinkUp, Department of Labor, Goldman Sachs Global Investment Research

- **Big Data.** The four alternative measures of employment growth we track indicate solid or strong job gains in April (see Exhibit 2). The 218k average pace across these indicators argues for a stronger-than-expected employment report tomorrow, especially if the official data receives an additional boost from residual seasonality, as we expect.

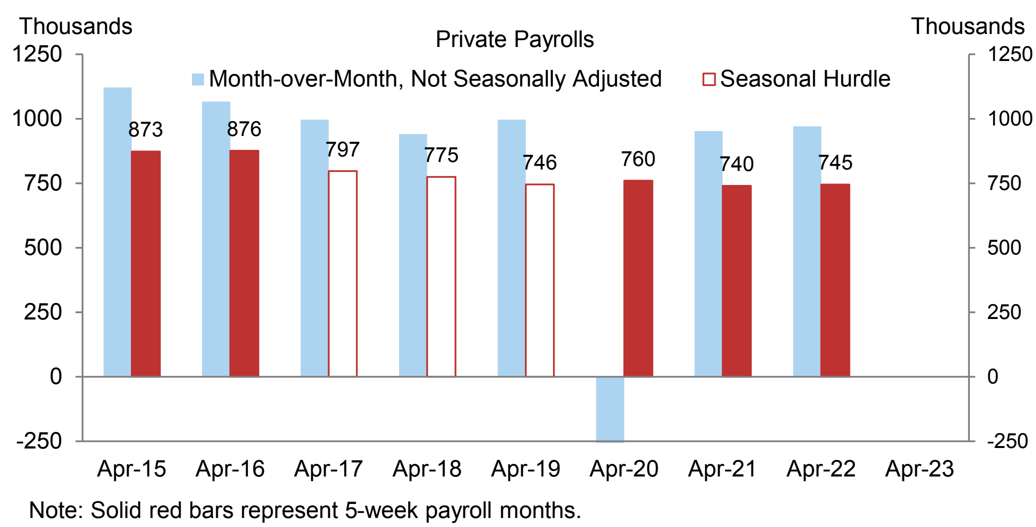
Exhibit 2: Big Data Employment Indicators Suggest Solid or Strong Job Growth in April



Source: Census Bureau, Homebase, Bloomberg, ADP, Goldman Sachs Global Investment Research

- **Residual seasonality.** As shown in Exhibit 3, the April seasonal factors have evolved favorably in recent years, with a month-over-month hurdle for private payrolls of 745k in April 2022 compared to 873k in 2015 and 876k in 2016—which were similar calendar configurations (both 5-week periods). We assume the seasonal factors represent a tailwind of roughly 50-100k in tomorrow's report (mom sa).

Exhibit 3: We Expect a Boost from Less Restrictive Seasonal Factors



Source: Department of Labor, Goldman Sachs Global Investment Research

Arguing for a weaker-than-expected report:

- **Tighter credit conditions.** The industry composition of bank lending argues for slowing job growth in the leisure and hospitality and other services industries, which rely heavily on bank lending and exhibit a small average firm size. Weakness in bank lending could also compound the issues facing the information sector, for which bank-loan-intensity is slightly above average. We are assuming a drag on tomorrow's report on the order of 25k (mom sa).

- **Layoffs.** Announced layoffs reported by Challenger, Gray & Christmas declined by 19k to 65k in April—but are still above the 44k average in the second half of 2022 (sa). Initial jobless claims averaged 240k in the April payroll month vs. 236k in March. We continue to believe that many laid-off workers were able to find new jobs relatively quickly, and that the required reduction in aggregate labor demand will come primarily from fewer job openings rather than lower employment.
- **Employer surveys.** The employment components of business surveys were mixed-to-weaker in April. Our services employment survey tracker decreased by 0.5pt to 50.2 while our manufacturing survey employment tracker increased by 0.6pt to 48.2.

Neutral/mixed factors:

- **Labor market slack**. When the labor market is tight, nonfarm payroll growth tends to slow in March and April relative to January and February—by roughly 100k per month, on average. However, we view labor market slack as a neutral factor for tomorrow, because Consensus already embeds a much larger-than-usual slowdown (consensus is +182k vs. +399k on average in January and February). We believe the tendency for job growth to slow in March and April reflects the interaction between worker shortages and the spring hiring season: seasonal labor market slack peaks at the start of the year—after year-end layoffs—and troughs in May.[1] Accordingly, one downside risk for tomorrow's report is that the dwindling availability of workers prevents firms from hiring as much as they do in a typical April.
- **Weather.** We do not expect a significant impact of weather in the April report. Snowier March weather in the Northeast and Midwest may have weighed on the March report, but the April survey week had little snow in major population centers. Flooding in California also appeared to weigh on the March report, as job growth in that state slowed by 14k relative to the prior 3-month averages (+9k vs. +23k). While some of these workers may have returned in April, we also cannot rule out a further drag from continued flooding.

We estimate the unemployment rate was unchanged at 3.5% (vs. consensus 3.6%), reflecting a modest rise in household employment and unchanged labor force participation (at 62.6%). We believe the post-pandemic rebound in labor force participation has now run its course, because both participation rates and the foreign-born share of the population have returned to pre-pandemic trends.

We estimate a 0.35% increase in average hourly earnings (mom sa) that boosts the year-on-year rate slightly to 4.25% (vs. consensus of +0.3% and +4.2%). Our forecast reflects continued but waning wage pressures and positive calendar effects. We also

[1] After the hiring of Q1 and April but before the arrival of the summer youth workforce in June and July.

note that composition effects weighed on average hourly earnings growth in Q1: our composition-adjusted measure rose 0.33% in March (mom sa) and 0.35% on average in Q1, compared to headline average hourly earnings of 0.27% and 0.26%, respectively. We expect a more modest drag going forward, reflecting fewer leisure-sector hires and a more stable share of supervisory workers in the economy.

Spencer Hill

Disclosure Appendix

Reg AC

We, Jan Hatzius, Alec Phillips, David Mericle, Spencer Hill, CFA, Joseph Briggs, Ronnie Walker, Tim Krupa and Manuel Abecasis, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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