August 2, 2023 08:26 PM GMT

US Economics | North America

Employment Report Preview

We expect continued softening: payrolls +190k and private payrolls +160k. We expect average hourly earnings rose 0.3% (slowing 0.2pp to 4.2%Y) and an unchanged workweek. Unemployment and participation rates are forecast flat at 3.6% and 62.6%. In short, a labor market "coming into better balance."

Exhibit 1: Employment report forecast details

Employment Report: Forecasts & Recent History	Est.	Consensus	Actual			
	Jul-23	Jul-23	Jun-23	May-23	3MMA	Year-Ago
Change in nonfarm payrolls (thous.)	190	200	209	306	244	568
Private	160	180	149	259	196	493
Unemployment rate (%)	3.6	3.6	3.6	3.7	3.5	3.5
Labor force participation rate (%)	62.6	62.6	62.6	62.6	62.6	62.1
Average weekly hours	34.4	34.4	34.4	34.3	34.4	34.6
Average hourly earnings (%M)	0.3	0.3	0.4	0.4	0.4	0.5
%Y	4.2	4.2	4.4	4.4	4.4	5.4

Source: Bureau of Labor Statistics (BLS), Morgan Stanley Research forecasts

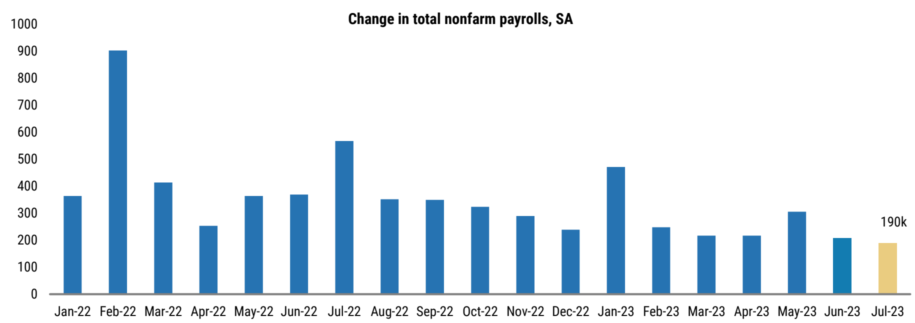
MORGAN STANLEY & CO. LLC
Ellen Zentner
Chief US Economist
Ellen.Zentner@morganstanley.com +1 212 296-4882
Sam D Coffin
Economist
Sam.Coffin@morganstanley.com +1 212 761-4630
Diego Anzoategui
Global Economist
Diego.Anzoategui@morganstanley.com +1 212 761-8573
Sarah A Wolfe
Economist
Sarah.Wolfe@morganstanley.com +1 212 761-0857
Lenoy Dujon
US/Canada Economist
Lenoy.Dujon@morganstanley.com +1 212 761-2779

July Employment

We forecast total nonfarm payrolls increased by 190k in July and private payrolls by 160k (Exhibit 2). The slowdown continues: our forecast is slightly faster than last month's 149K in private payrolls but below the average monthly increases of 196k in 2Q and 234k in 1Q. Average hourly earnings are forecast to rise 0.3%M, after 0.4% per month on average in 2Q, and the 12-month pace probably slowed by 2 tenths to 4.2%. We expect no change in the workweek at 34.4 hours. With little change expected for labor force participation this month at 62.6%, we forecast the unemployment rate stayed at 3.6%. Our forecasts are consistent with the labor market "coming into better balance."

Last month, private payrolls slowed to a 149k increase from 198k on average in the prior three months. The softness has reflected a broad deceleration in services in June and throughout 2Q (Exhibit 3).

Exhibit 2: We expect total NFP to slow further to 190k in July



Source: BLS, Morgan Stanley Research forecasts

Exhibit 3: A sharp deceleration in June, led slowing across services

	Average monthly change							
monthly change, 000s	**3Q**	**4Q**	**1Q**	**2Q**		**Apr**	**May**	**Jun**
Nonfarm	**423**	**284**	**312**	**244**		**217**	**306**	**209**
Private	381	253	234	196		179	259	149
Goods-producing	51	45	13	26		25	23	29
Mining and logging	2	5	2	2		5	3	-1
Construction	16	21	10	19		11	23	23
Manufacturing	33	19	1	4		9	-3	7
Motor veh.	7	6	1	7		9	6	4
Service-producing	330	208	221	170		154	236	120
Wholesale	13	8	6	0		-2	4	-4
Retail	12	-8	17	3		-2	23	-11
Trans. & warehousing	13	-6	10	-2		-15	17	-7
Utilities	1	0	0	1		2	1	0
Information	8	2	-9	1		3	0	0
Financial	8	11	-2	16		27	12	10
Professional & business services	58	20	37	43		48	61	21
Temp help	4	-31	1	-10		-21	3	-13
Education	16	7	19	11		9	16	7
Health care, social assistance	84	77	63	66		67	65	65
Leisure & hospitality	100	81	67	19		11	26	21
Other services	19	17	13	11		5	12	17
Government	42	31	78	48		38	47	60
Federal	5	2	11	3		4	3	1
State and local	37	29	67	46		34	44	59

Source: BLS, Morgan Stanley Research

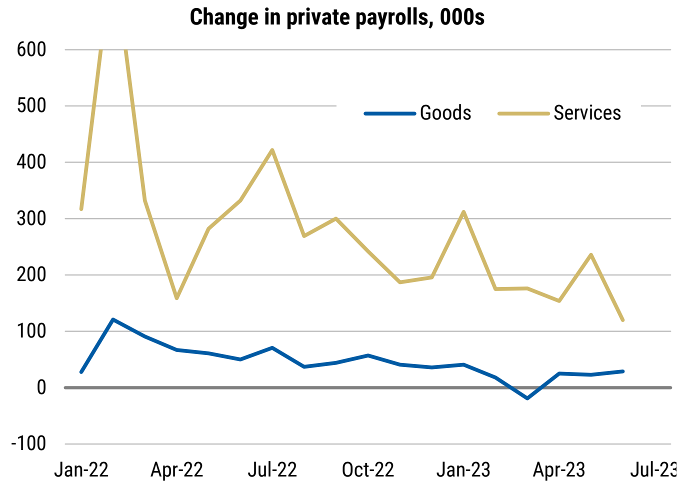
There have been signs of softer demand in travel-related services – slower spending, slowing inflation – and we expect the ongoing deceleration in leisure and hospitality payrolls extended into July (leisure and hospitality payrolls slowed from 67k per month on average in 1Q to 19k per average in 2Q and 21k in June, Exhibit 4). Professional and business services payrolls are key to further slowing: unlike most services, they had accelerated in 2Q before a sharp correction in June that we expect extended into July.

Temporary employment has been falling. Retail, wholesale, and transport/warehousing payrolls have stalled recently; we expect little different for July. Information payrolls, which include motion pictures, also have stalled. They're in close focus this month because of labor strife; the strike by the Screen Actors Guild should affect August payrolls, not July, but the earlier writers' strike probably had already interrupted movie production.

In goods payrolls construction payrolls probably continue to perk along, as does manufacturing. But with rig counts falling, we expect softness in mining and logging.

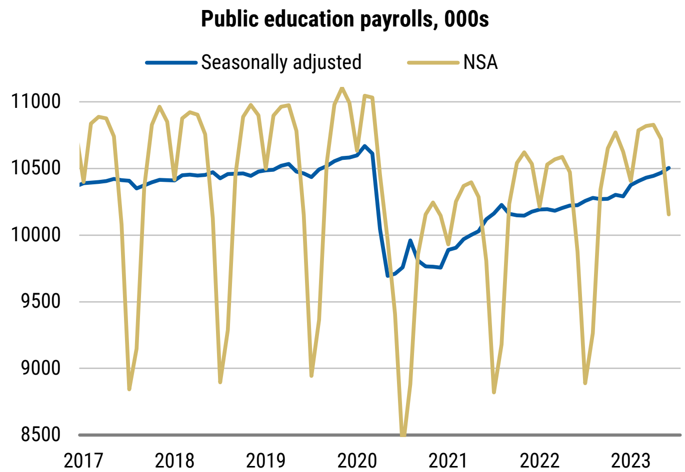
We see downside risk to government payrolls from employment in education. Over the past year, state and local education payrolls continued to recover from the pandemic, but summertime school closings are so far only partly reflected in payrolls (Exhibit 5).

Exhibit 4: Slowing in services probably extended into July



Source: Bureau of Labor Statistics, Morgan Stanley Research

Exhibit 5: School payrolls fall at the start of summer, but how far?



Source: Bureau of Labor Statistics, Morgan Stanley Research

With a similar composition of payroll gains in our forecast for this month as last month, we project no change in the workweek. Workweeks have mostly normalized after pandemic-era lengthening. Especially in leisure and hospitality payrolls we see this a sign of softening labor demand. More generally, the workweek shortened enough in April and May that despite continued payroll gains, aggregate hours worked was unchanged in 2Q.

We do not believe that the strike by the Screen Actors' Guild affected payrolls in July. The strike began July 14. Members of the guild are paid weekly, would have been paid for part of the payroll sample period, and therefore would be counted in payrolls. More directly: that strike did not appear in the BLS's strike report for July.

Seasonal factors are an upside risk to our forecast. In June, they subtracted 489k from NSA payrolls (697k) to arrive at the seasonally adjusted gain of 208k. In July, they add: last year 855k, and pre-pandemic more than a million (Exhibit 6). Much of that is for education payrolls, but private payroll seasonal factors also have the potential to add to NSA changes after subtracting in recent years (Exhibit 7).

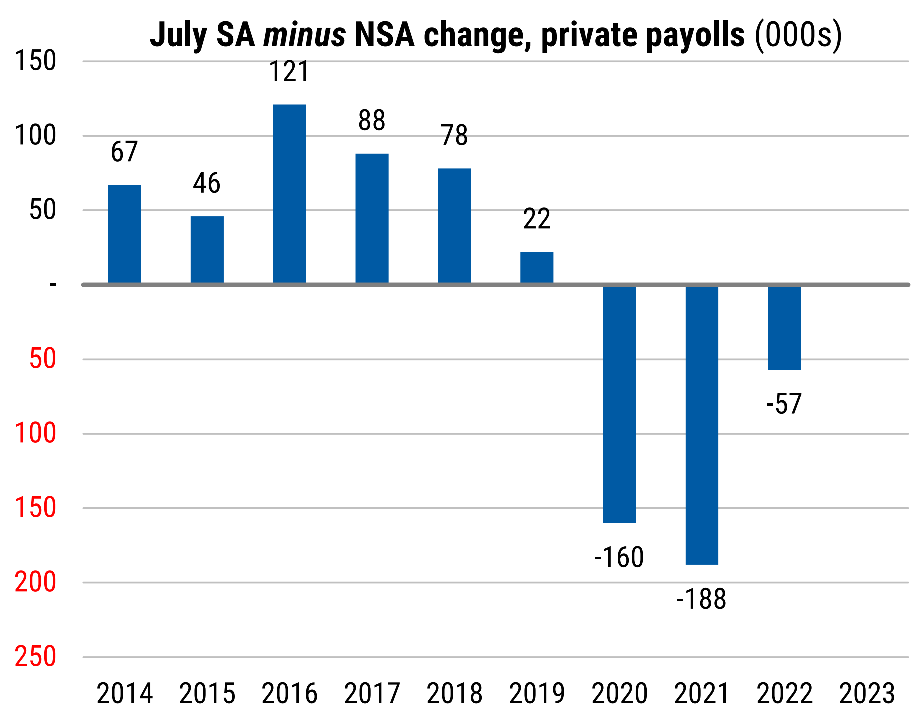
Risks to our forecast: To the upside, seasonal factors could be a significant boost. Last month's deceleration across services may have exaggerated underlying deterioration. To the downside: State and local education payrolls could correct sharply. Also, the combination of falling workweeks, falling temp employment, and the recent, broad slowing in services point to further deceleration, either in July or in later months.

Exhibit 6: Large seasonal boost to July

	July Hurdle	June Hurdle	June NSA	June SA
Leisure & Hospitality	164	477	498	21
Local Government, excluding Education	52	194	208	14
Professional & Business Services	44	69	90	21
Construction	40	135	158	23
Financial Activities	27	73	83	10
Information	10	35	35	0
Mining & Logging	4	7	6	-1
Wholesale Trade	2	28	24	-4
Utilities	2	3	3	0
Federal	1	6	7	1
Retail Trade	1	107	96	-11
Other Services	-1	63	80	17
Manufacturing	-2	100	107	7
State Government, excluding Education	-5	19	27	8
Health Care & Social Assistance	-20	12	77	65
Transportation & Warehousing	-59	6	-1	-7
Educational Services	-62	-244	-236	7
State Government Education	-71	-266	-246	19
Local Government Education	-981	-335	-318	17
Total	**-855**	**489**	**697**	**208**

Source: BLS Morgan Stanley Research

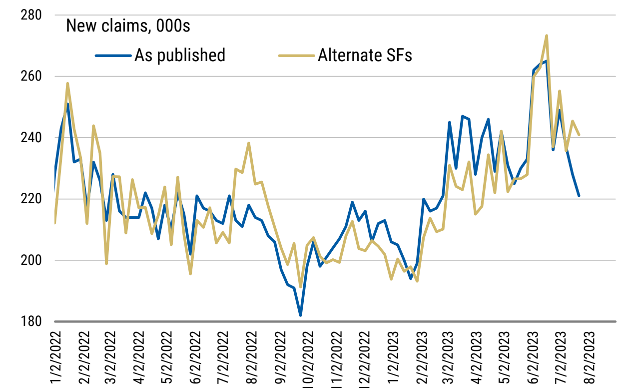
Exhibit 7: Seasonal factors for private sector payrolls could swing from a drag to a boost



Source: BLS, Morgan Stanley Research

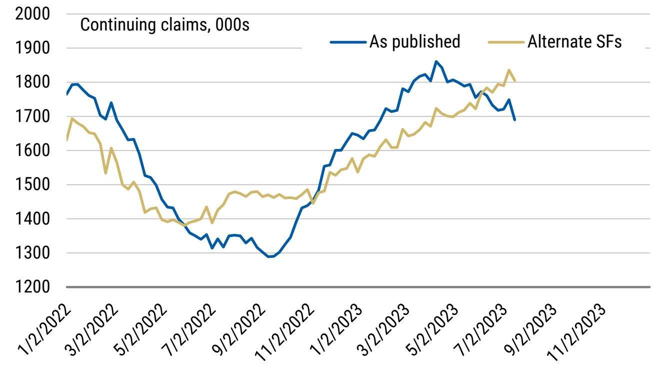
Other labor market indicators generally supported a forecast for continued softness: Jobless claims continue to point to labor market weakness. Continuing claims are reported to have fallen but the decline reflects seasonal factors distorted by the pandemic. Re-adjusted using prepandemic seasonals, they continue to trend upward, consistent with ongoing slowing in the labor market and with the trend this year in payrolls (Exhibit 8 & Exhibit 9).

Exhibit 8: New jobless claims still trending up under alternate seasonals



Source: Department of Labor, Morgan Stanley Research

Exhibit 9: Continuing claims also continue to trend up

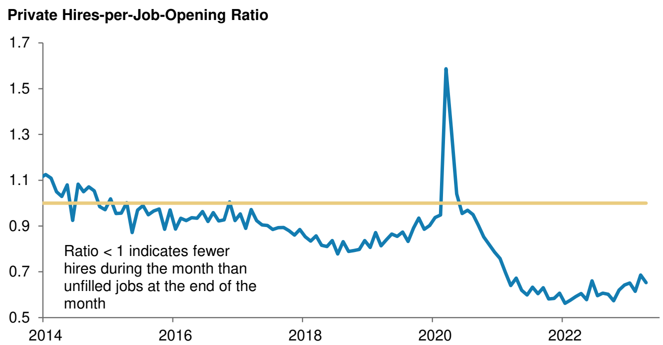


Source: Department of Labor, Morgan Stanley Research

ADP estimated that private payrolls rose by 324k in July, slowing from 455k in June. However, there are significant reasons to doubt the estimate. The June strength, compared to softening in the BLS official data, was a reminder that the ADP figures are not always a reliable indicator of the official data. Indeed, they're no longer geared towards predicting BLS figures. And the detail of the report for both July and June included odd strength in a few areas. ADP showed strength in leisure and hospitality in June (225k) and July (201k), a sharp acceleration from last year's pace (+90k per month on average). That strength contrasts with the shortening workweek and other indications of slackening consumption growth in that area. Another source of the strength in services employment was an upswing in "information" payrolls; the reported upswing there (-30k to +36k) seemed unlikely even before the SAG strike as movie production had already been interrupted by a writers' strike.

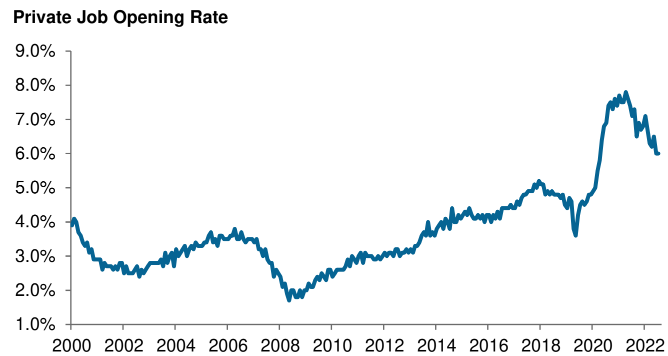
The Job Openings and Labor Turnover Survey (JOLTS) report for June showed a further decrease in openings, and the hires-to-openings ratio fell in June (Exhibit 10 & Exhibit 11). The separations rate, which includes quits, layoffs and discharges, rose by 10bp in the private sector to 4.1% with layoffs staying flat. The quits rate increased 20bp to 2.6%, 40bp lower relative to April 2022.

Exhibit 10: Hires-to-Openings ratio



Source: Bureau of Labor Statistics, Morgan Stanley Research

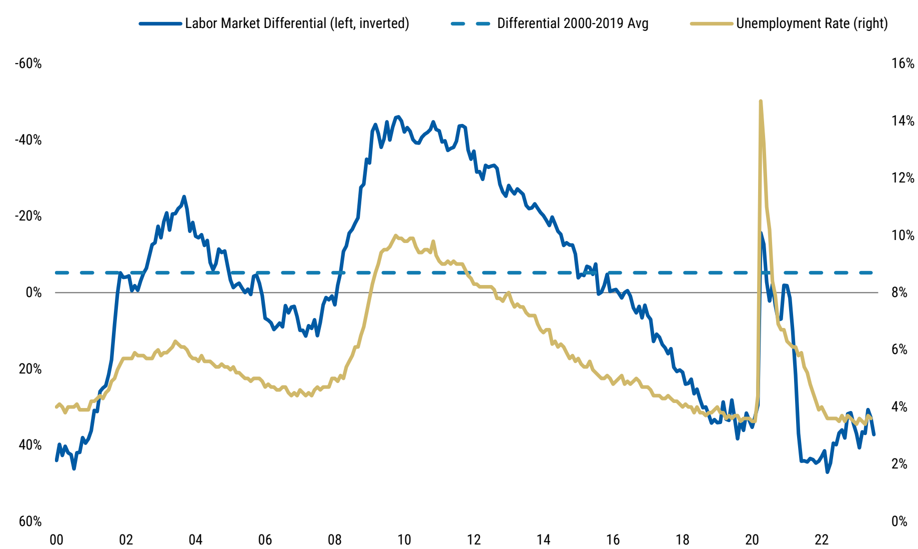
Exhibit 11: Job openings continue to fall



Source: Bureau of Labor Statistics, Morgan Stanley Research

The Conference Board survey's assessment of current conditions in the labor market strengthened slightly in July but remained within its sideways-trending range of the past year. It has tracked (inversely) with the flat unemployment rate much better than with payrolls (Exhibit 12).

Exhibit 12: Conference Board Labor Market Differential

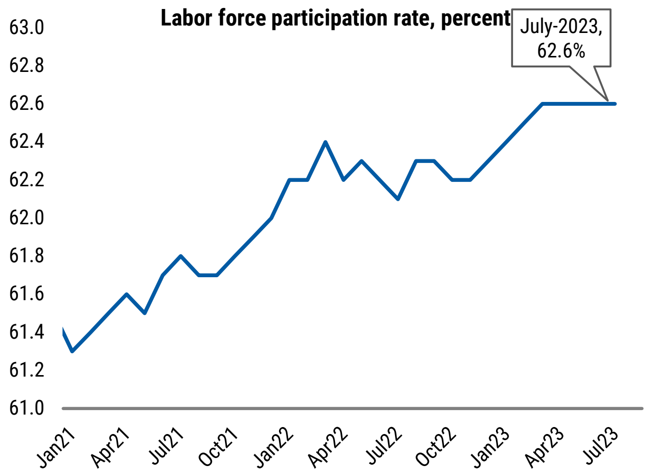


Source: Conference Board, Morgan Stanley Research

Labor Force Participation & Unemployment Rate

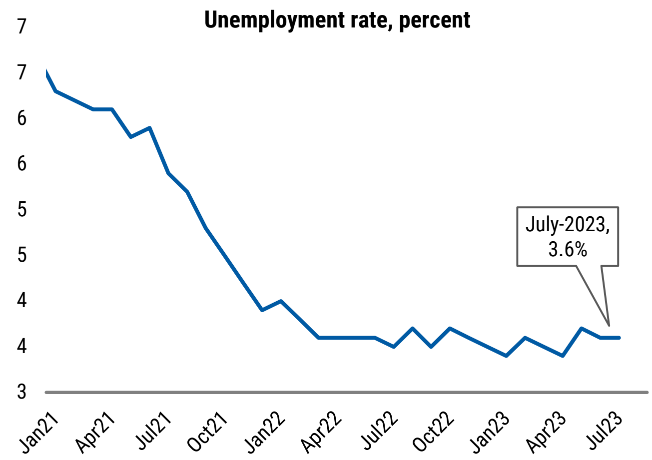
We expect labor force participation unchanged at 62.6%, for a fifth straight month. In combination with our forecast for job gains, that should leave the unemployment rate at 3.6% in July (Exhibit 13 & Exhibit 14).

Exhibit 13: We expect labor force participation to remain at 62.6%



Source: Bureau of Labor Statistics, Morgan Stanley Research

Exhibit 14: The unemployment rate should stall at 3.6%



Source: Bureau of Labor Statistics, Morgan Stanley Research

Average Hourly Earnings & Average Workweek

We expect average hourly earnings to increase by 0.3%M. The year-over-year rate is on track to slow from 4.4%Y to 4.2%Y on base effects.

We expect no change in the workweek. The workweek normalized in recent months, with returns to prepandemic workweeks in most industries. We expect little change until this fall, when we expect falling labor demand will be reflected in slower employment gains and shorter hours.

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. LLC, and/or Morgan Stanley C.T.V.M. S.A., and/or Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., and/or Morgan Stanley Canada Limited. As used in this disclosure section, "Morgan Stanley" includes Morgan Stanley & Co. LLC, Morgan Stanley C.T.V.M. S.A., Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., Morgan Stanley Canada Limited and their affiliates as necessary.

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies. A Portuguese version of the policy can be found at www.morganstanley.com.br

Important Disclosures

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley may make investment decisions that are inconsistent with the recommendations or views in this report.

To our readers based in Taiwan or trading in Taiwan securities/instruments: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Any non-customer reader within the scope of Article 7-1 of the Taiwan Stock Exchange Recommendation Regulations accessing and/or receiving Morgan Stanley Research is not permitted to provide Morgan Stanley Research to any third party (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities regarding Morgan Stanley Research which may create or give the appearance of creating a conflict of interest. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. Neither this report nor any part of it is intended as, or shall constitute, provision of any consultancy or advisory service of securities investment as defined under PRC law. Such information is provided for your reference only.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A. located at Av. Brigadeiro Faria Lima, 3600, 6th floor, São Paulo - SP, Brazil; and is regulated by the Comissão de Valores Mobiliários; in Mexico by Morgan Stanley México, Casa de Bolsa, S.A. de C.V which is regulated by Comision Nacional Bancaria y de Valores. Paseo de los Tamarindos 90, Torre 1, Col. Bosques de las Lomas Floor 29, 05120 Mexico City; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents) and by Morgan Stanley Bank Asia Limited; in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and by Morgan Stanley Bank Asia Limited, Singapore Branch (Registration number T14FC0118J); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited having Corporate Identification No (CIN) U22990MH1998PTC115305, regulated by the Securities and Exchange Board of India ("SEBI") and holder of licenses as a Research Analyst (SEBI Registration No. INH000001105); Stock Broker (SEBI Stock Broker Registration No. INZ000244438), Merchant Banker (SEBI Registration No. INM000011203), and depository participant with National Securities Depository Limited (SEBI Registration No. IN-DP-NSDL-567-2021) having registered office at 18th Floor, Tower 2, One World Center, Plot- 841, Jupiter Textile Mill Compound, Senapati Bapat Marg, Lower Parel, Mumbai 400013, India Telephone no. +91-22-61181000; Compliance Officer Details: Mr. Anil Shenoy, Tel. No.: +91-22-61181000 or Email: