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US Economics | North America

Employment Report Preview

We expect total nonfarm payrolls increased by 183k in April with an uptick in participation from 62.62% to 62.69%, which should lift the unemployment rate to 3.6%. We expect average hourly earnings to increase by 0.2%M, lowering the year-over-year rate to 4.1%. Headline risk is to the upside.

Employment Report: Forecasts & Recent History

	Est.	Consensus	Actual			
	Apr-23	Apr-23	Mar-23	Feb-23	3MMA	Year-Ago
Change in nonfarm payrolls (thous.)	183	180	236	326	345	254
Private	154	157	189	266	269	226
Unemployment rate (%)	3.6	3.6	3.5	3.6	3.5	3.6
Labor force participation rate (%)	62.7	62.6	62.6	62.5	62.5	62.2
Average weekly hours	34.5	34.4	34.4	34.5	34.5	34.6
Average hourly earnings (%M)	0.2	0.3	0.3	0.2	0.3	0.3
%Y	4.1	4.2	4.2	4.6	4.4	5.8

Source: Bureau of Labor Statistics, Morgan Stanley Research Forecasts.

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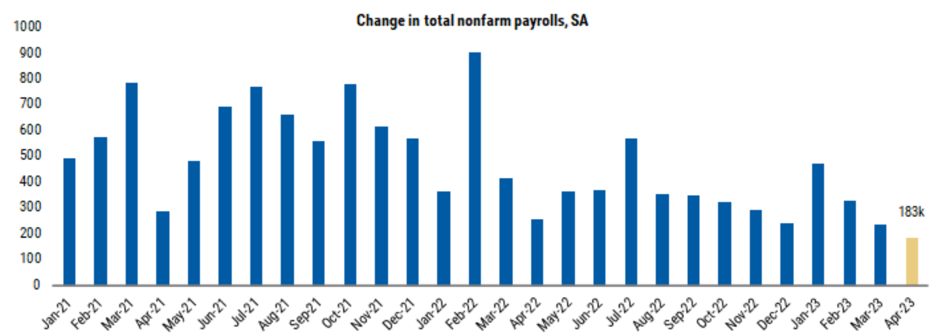
April Payrolls

We expect total nonfarm payrolls increased by 183k in April, a step down from 236k in March (Exhibit 1). Private payrolls are on track to rise 154k. We expect net new job creation to continue to decelerate as labor market indicators have started to show signs of easing and the effects of seasonal factors normalize. The strong April seasonal hurdle should favor a weaker print. Furthermore, with labor market indicators pointing towards labor hoarding, less seasonal fluctuation in hiring should be a drag on April jobs numbers. However, we see balanced risk coming from weather effects as the April survey week saw higher temperatures around the US but at the same time we saw higher precipitation in the Midwest. **More broadly, we see monthly nonfarm payroll gains slowing from an average pace of 307k in 2H22 to 251k in 1H23 and 48k in 2H23.**

Exhibit 1: We expect total NFP slow to 183k in April following a 236k increase in March



Source: BLS, Morgan Stanley Research Forecasts

Exhibit 2: Seasonal hurdle gets harder to beat in April, specifically in professional services, leisure & hospitality and construction. Transportation & warehousing and local government education have a particularly low hurdle, which could lead to strength in those sectors

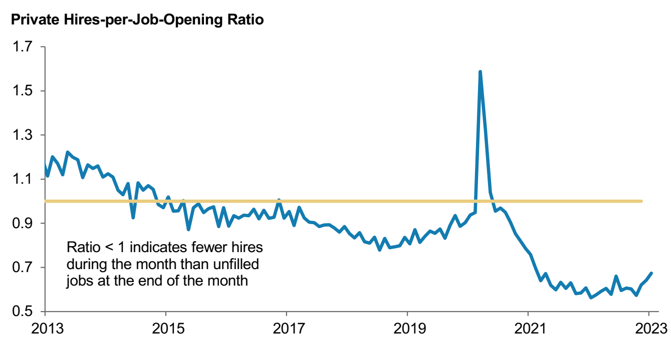
	Apr Hurdle	Mar Hurdle	Mar NSA	Mar SA
Leisure & Hospitality	351	189	261	72
Professional & Business Services	246	-4	35	39
Health Care & Social Assistance	22	0	51	51
State Government Education	0	10	17	7
Retail Trade	-12	-23	-38	-15
Educational Services	11	11	26	15
Construction	155	62	53	-9
Transportation & Warehousing	-54	-29	-19	10
Manufacturing	1	11	10	-1
Other Services	35	11	22	11
Local Government Education	-5	14	26	12
Local Government, excluding Education	20	16	30	14
Wholesale Trade	10	10	16	7
Financial Activities	17	-5	-6	-1
Federal	4	-5	3	8
State Government, excluding Education	4	8	13	5
Mining & Logging	-2	2	5	3
Utilities	0	2	4	2
Information	19	4	10	6
Total	**821**	**284**	**520**	**236**

Source: BLS Morgan Stanley Research

Overall, recent labor data points toward a slowdown for this month's employment

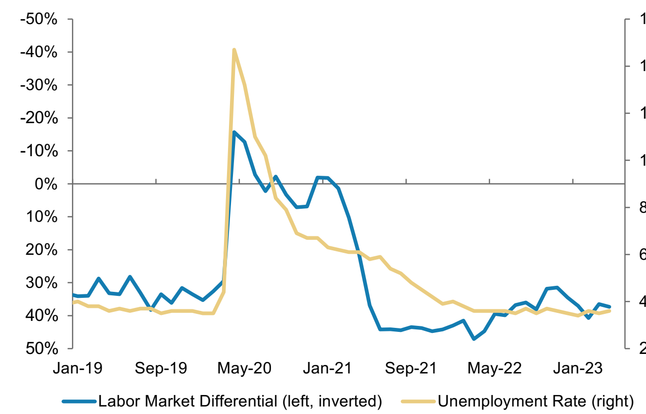
report relative to the trend of recent months The Job Openings and Labor Turnover Survey report for March showed a significant drop in job openings - the largest 3-month change in openings on record (excluding the Covid-related decline).The hires-to-openings ratio increased to the highest level since April 2021, and suggests that although the labor market continues to be tight, it is exhibiting sings of cooling (Exhibit 3). Decreased openings were strongest in professional & business services, mining, construction, and transportation, warehousing, & utilities. The separations rate, which includes quits, layoffs and discharges, stayed flat but increased 10bp in the private sectors to 4.2% with layoffs coming up 20bp to 1.3%. The quits rate declined to 2.5%, 50bps lower relative to April 2022 and is now within 20bps of the 2018-19 average. Even though the March JOLTS print suggests easing in the labor market, we still see much uncertainty around the April print.

Exhibit 3: Hires-to-Openings Ratio



Source: Bureau of Labor Statistics, Morgan Stanley Research

Exhibit 4: Conference Board Labor Market Differential



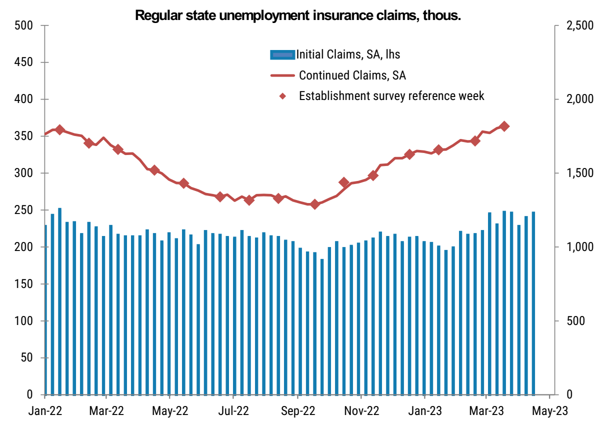
Source: Conference Board, Morgan Stanley Research

The Conference Board Consumer Confidence survey's labor market differential, measuring jobs plentiful vs. jobs hard to get, increased by 0.8pt to 37.3% in April (Exhibit 4). The labor market differential closely tracks the unemployment rate and reflects consumers' perception of the labor market. In April, consumers who claimed jobs were "plentiful" increased to 48.4%, while consumers stating jobs were "hard to get" was down to 11.4%. In contrast, looking ahead, consumers felt less optimistic about the near-term labor market outlook as a decreased number of survey respondents anticipate more jobs to be available in the next six months.

Unemployment insurance claims data released since April remain low. Smoothing out weekly noise, the 4-week moving average of regular state initial claims increased by 4.25k from the March survey reference week (the week that includes the 12th of the month) to the April reference week. Over the same period, the 4-week average of regular state continued claims rose 43k (Exhibit 5). In this tightening cycle, we expect to see a rise in continued claims as an indicator of hiring slowdown.

We pay close attention to jobless claims as they are the direct link between stress in credit and staffing decisions. While it's too early for possible knock-on effects from emerging funding pressures to be captured, we have seen a sustained rise in jobless claims since January 2023 off historically low levels.

Exhibit 5: Jobless Claims Remain Low



Source: Bureau of Labor Statistics, Morgan Stanley Research

The ADP employment change came in at 296k for April, well above consensus expectations of 148k and our forecast for BLS private payrolls of 154k. By industry, the service-providing industries lead the gains with 229k, coming up from 75k in March. Leisure & Hospitality added 154k jobs, while Education & health services added 69k jobs. Financial Activities and Professional and Business Services saw the largest decline, losing -28k and -16k jobs in April, respectively. The goods-producing sector gained 67k jobs, with the bulk of the job gains coming from construction and Natural resources/mining. Manufacturing saw a decrease of 38k.

It is important to note that there is a significant divergence between ADP's measure and BLS private payrolls. ADP does not purport to forecast the BLS number, instead it is an independent measure of the US labor market with a sample size of roughly 26 million workers intended to complement the official government data. **Since August 2022, when ADP released a new version of its data series, it has undershot BLS private payrolls by an average 65k/month with the largest being 267k in January this year.**

The stronger-than-expected April ADP report, which highlighted the strength in the service sector, was followed by a **weaker-than-expected ISM Services index that showed employment in the services sector weakened during the month but remained expansionary.**

Even though ADP showed a strong employment print, the ADP wage dynamics continues to point to a gradual slowdown from both Job Stayers and Job Changers, indicating further easing in the labor market. Job Stayers saw a median change in annual pay of +6.7%Y, while Job Changers saw a decrease to +13.2%Y during the same time. While Job Changers' median annual change remains very elevated, April marked the slowest pace of growth since November 2021.

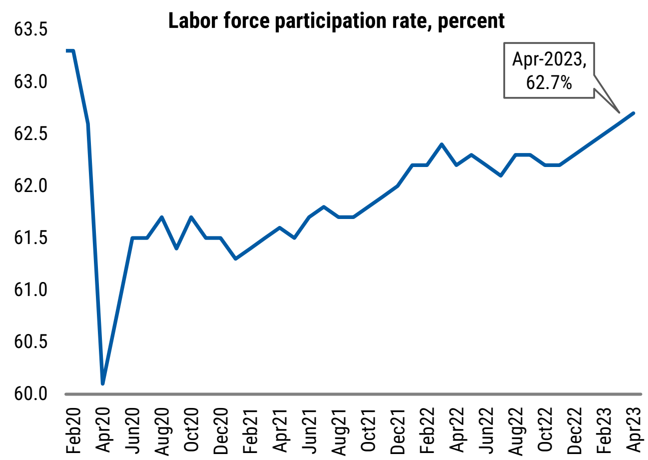
Overall, we see an upside risk to this print coming from higher than usual temperatures, along with a higher than expected ADP print, an increase in job expectations from the Conference Board Consumer Confidence, and still low initial and continued claims.

These risks are balanced by a high seasonal hurdle, higher precipitation in parts of the country, and JOLTS showing a decrease in job openings, steady hires, and higher layoffs.

Labor Force Participation & Unemployment Rate

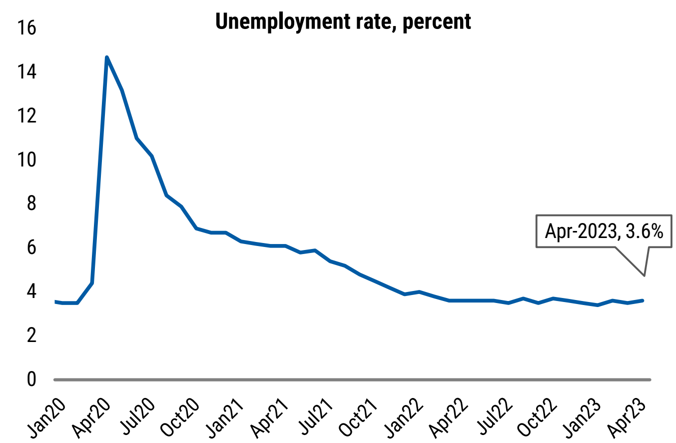
We expect labor force participation to tick up to 62.69% from 62.62% which, in combination with our forecast for job gains, should bring up the unemployment rate to 3.6% in April (Exhibit 6 & Exhibit 7). We expect that gains in participation and the slowing in job growth together will push up the unemployment rate to 4.1% by end-23 and further to 4.3% by the end of 2024.

Exhibit 6: We expect labor force participation to round to 62.7%



Source: Bureau of Labor Statistics, Morgan Stanley Research

Exhibit 7: The unemployment rate should tick up 10bp to 3.6%



Source: Bureau of Labor Statistics, Morgan Stanley Research

Average Hourly Earnings & Average Workweek

We expect average hourly earnings to increase by 0.2%M, where downside is driven by a step up in the average work week. With base effects fading, the year-over-year rate is on track to fall to 4.1%. Finally, we expect the average workweek to normalize at 34.5.

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