Economic Update

May 3, 2024

Slower But Still Solid Job Growth in April, as Unemployment Rate Remains Historically Low; Slowing Wage Growth Supports Fed Funds Rate Cuts Later This Year

- **Job growth was slower but still solid in April at 175,000, with almost all of the growth coming from the private sector.**
- **The unemployment rate rose slightly to 3.9%, and has been below 4% for more than two years.**
- **Wage growth slowed in April, and was below 4% for the first time in almost three years.**
- **The April jobs report supports fed funds rate cuts later this year.**

The U.S. economy added 175,000 jobs in April, according to a survey of employers from the Bureau of Labor Statistics. This is somewhat below the recent pace, and the smallest number of jobs added since November, but is still solid. Job gains in March were revised higher to 315,000 from 303,000, while February job growth was revised lower to 236,000 from 270,000. Over the past three months the economy has added an average of 242,000 jobs per month, above the economy's long-term potential. This is very close to the 2023 average of 250,000 jobs per month. The private sector added 167,000 jobs over the month while government added just 8,000 jobs, after average increases of more than 60,000 in the first three months of this year.

The unemployment rate increased slightly to 3.9% in April from 3.8% in March; it has been between 3.7% and 3.9% since August. The unemployment rate has now been below 4% for 27 straight months, the longest-such stretch since the late 1960s. Employment in a survey of households (different from the survey of employers) increased by 25,000 in April from March. The labor force—the number of people 16 and older working or looking for work—increased by 87,000 in April. The labor force participation rate—the share of adults working or looking for work—held steady at 62.7% in April. The labor force participation rate has been between 62.5% and 62.8% for more than a year. Although the labor force participation is up from the pandemic, when it fell to 60% in April 2020, it remains consistently below the 63%+ rate that prevailed in 2019.

Goods-producing industries added 14,000 jobs in April, with small gains in construction (9,000) and manufacturing (8,000). Private services-providing industries added 153,000 jobs, with 95,000 of those in education and health care. Employment rose by 52,000 in trade/transportation/utilities. But employment fell by 4,000 in professional/business services, led by a drop of 16,000 in temporary help services. Temporary help employment is often a leading indicator for the overall labor market. That being said, temporary help employment has been falling steadily since early 2022 even as overall job growth has remained historically strong. There were small increases in state and federal employment government in April, with local government employment flat, for a total increase of 8,000. This was the smallest increase in government employment since late 2022.

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Average hourly earnings rose a modest 0.2% over the month, after increasing 0.3% (0.347% before rounding) in March after revisions. This is welcome news for the Federal Reserve, which remains concerned about wage growth that is running too hot to achieve the central bank's 2% inflation objective. On a year-over-year basis average hourly earnings were up 3.9% in April, down from 4.1% in March and almost 6% in early 2022. This is the first time wage growth has been below 4% since mid-2021, and the first time excluding pandemic-caused distortions since early 2020. Still, wage growth needs to slow to something closer to 3.5% to be consistent with 2% inflation. The average workweek fell slightly to 34.3 hours from 34.4 hours. With more jobs, somewhat higher wages, and a drop in the workweek, labor market income was flat over the month, below expected inflation of 0.4% (CPI to be released May 15).

The April jobs report was close to what the Federal Open Market Committee wants to see. Job growth wasn't quite as strong as in the first three months of the year, but is close to the economy's long-run potential given growth in the labor force, and is certainly strong enough to maintain consumer spending. And unlike earlier in the year, almost all of the job gains came from the private sector. Wage growth continues to ease, which should reduce inflationary pressures in the economy.

This jobs report is consistent with the Federal Open Market Committee cutting the federal funds rate a couple of times later this year. As of the afternoon the fed funds futures market is pricing in a 68% probability of at least one 25 basis point cut in the fed funds rate by the FOMC's mid-September meeting, up from 62% yesterday.

The market reaction is positive. Stocks opened the day higher and the S&P 500 is up more than 1%. The yield on the 10-year Treasury note is down by 8 basis points to 4.51%, and the yield on the 3-month T-bill is unchanged at 5.38%. The price of a barrel of West Texas Intermediate crude oil is down by 0.8% to $78.34 per barrel, while the dollar is down 0.2% against a basket of currencies on renewed optimism about potential fed funds rate cuts.

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