Job Growth Ever So Softer

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KEY TAKEAWAYS

- This morning, the National Federation of Independent Business (NFIB) released their latest insights from their July survey and hiring plans have trended lower since mid-2021.
- We are starting to see this softer trend show up in the jobs report. Headline payrolls rose by 187,000 in July, with the prior month's gain revised down from 209,000 to 185,000.
- The high correlation between this survey and job growth implies the labor market should loosen in the coming months and provide leeway for the Federal Reserve (Fed) to pause at their next meeting.
- Markets should respond favorably to softer job growth if it translates into easing inflation pressures.

OVERVIEW

The Bureau of Labor Statistics (BLS) reported nonfarm payrolls grew by 187,000 in July, just shy of consensus. This, however, marks a slight uptick from the revised June figure of 185,000. The healthcare sector was the biggest contributor, adding 63,000 jobs, followed by social assistance (24,000) and financial activities (19,000). Labor force participation came in at 62.6% for the fifth straight month, while the unemployment rate ticked down to 3.5%, from a previous 3.6%.

Although July's BLS report showed a steady pace of hiring, the longer-term path in hiring has displayed signs of slowing over the past year. The chart below highlights the overall trend since July 2022.

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July's report shows we haven't yet seen the *marked* slowdown in hiring, which usually accompanies an economic downturn. This data lends itself to the soft landing narrative which is taking hold. If we continue to see consumer demand, then companies will continue to hire in order to meet their needs. However, consumer debt as measured by credit card balances, has now reached warning-sign levels. Credit card interest rates were 20.86% as of the last reading in May, which marks the highest level since the data series began in 1972. It's important to note that elevated balances and record-level borrowing rates cannot be sustained.

LOOKING AHEAD

Leading indicators of job growth show signs of further softness. This morning, the NFIB released their latest insights from their July survey and hiring plans have trended lower since mid-2021. We are starting to see this softer trend show up in the jobs report. As shown in this second chart below, the NFIB survey and the monthly jobs report are highly correlated, and according to the latest report from business owners, investors should expect hiring to slow as we enter the latter months of 2023. Investors should expect the markets to respond favorably to softer job growth if that growth remains positive. So far, we aren't seeing signals of contraction yet, so as long as inflation decelerates further, the Fed should pause its tightening cycle at the next meeting.

View enlarged chart

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