

The Daily Dish

The Employment Report in Perspective

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Friday's April employment report from the Bureau of Labor Statistics (BLS) was widely perceived – including by Eakinomics – as (overdue) evidence of labor market cooling consistent with the Fed's continued restrictive monetary policy. A few hours later, however, the Institute for Supply Management released its purchasing managers' index (PMI) for Services. The overall PMI fell from 51.4 in March to 49.4 in April, while the employment index fell sharply to 45.9 from 48.5 in March.

Services are a huge fraction of employment in the United States, and PMIs below 50 indicate contraction. So, is the labor market modestly cooling or showing signs of cracking entirely?

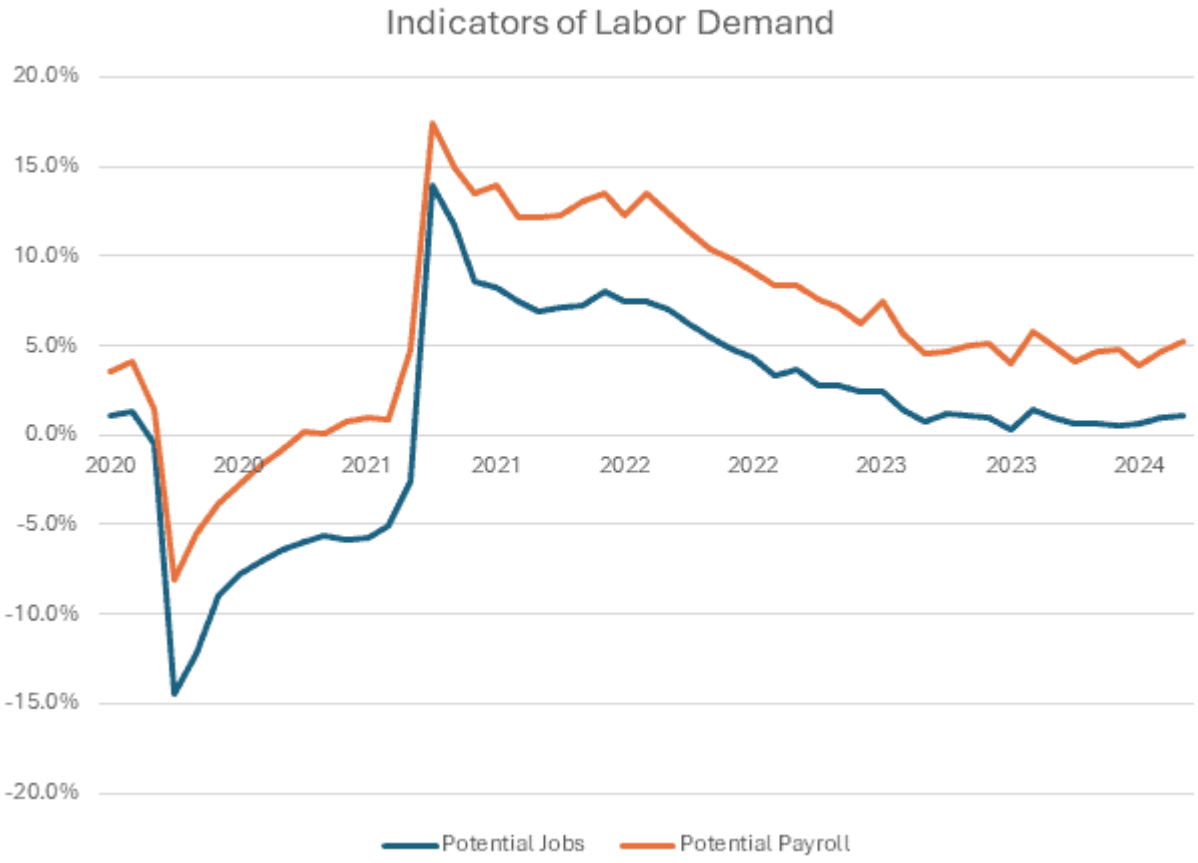
It is hard to say. Of the 175,000 jobs created in April, over half (95,000) were created in private education and health services. Not exactly widespread job growth. And the previously robust leisure and hospitality sector was essentially flat in the water.

So Eakinomics decided to step back and review the overall supply and demand status in the labor market. Is there any evidence of a sharp drop in demand or constriction in supply (or both)?

Consider first indicators of labor demand. The graph below shows (blue line) the year-over-year growth in "potential jobs" – the sum of actual jobs plus unfilled openings. It displays clearly the sharp rise in demand during 2021 and 2022, followed by a steady slowing. It is interesting to note the apparent end to the slowing during 2024. Also shown is growth in "potential payroll" – the product of potential jobs, average hourly earnings, and average weekly hours. This displays the same patterns as the previous indicator.

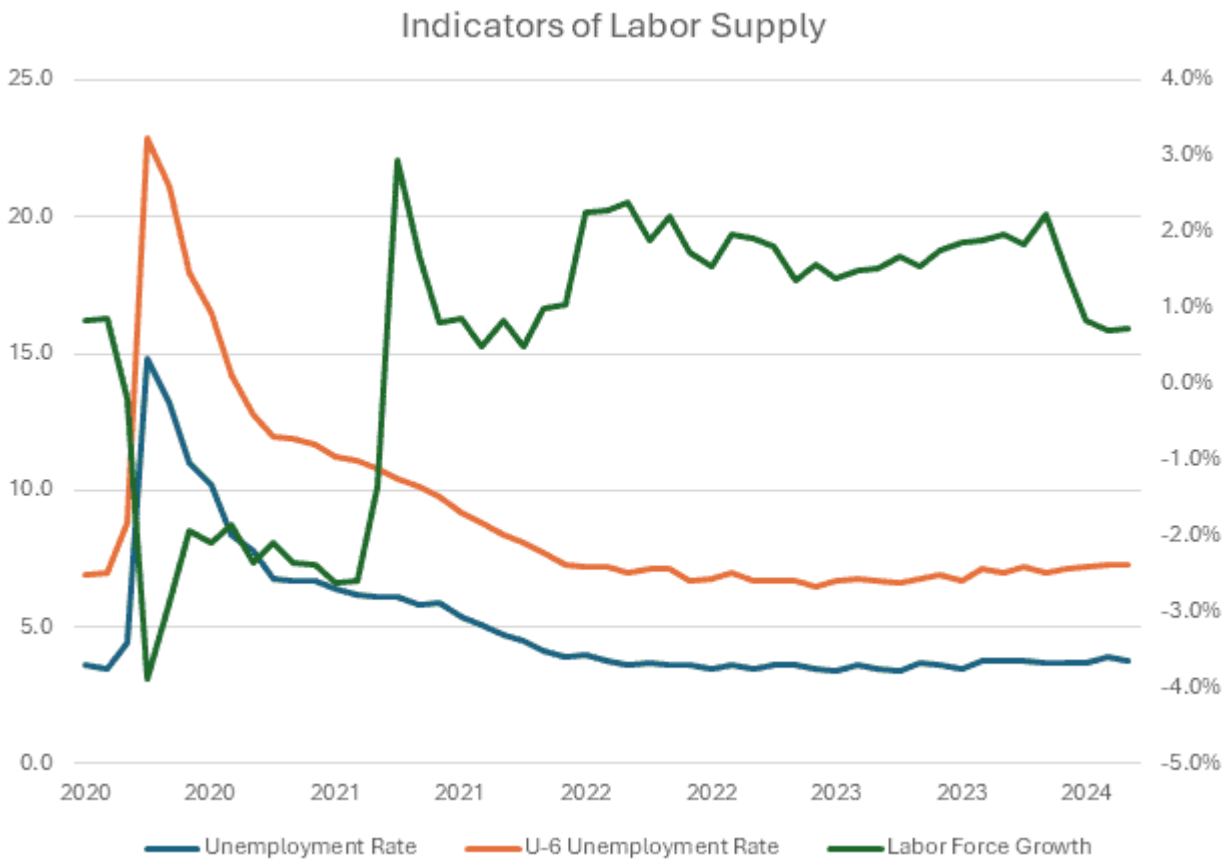
In short, if there has been a sudden falloff in labor demand, it is not yet apparent in these

data.



Consider, now, indicators of supply. The green line (right axis) indicates year-over-year growth in the labor force. After the pandemic decline, 2022 and 2023 witnessed continued solid expansion of the labor force. Eakinomics has previously noted that the 2023 expansion was fueled by immigration, which permitted continued strong employment growth. With this backdrop, the sharp drop in growth in 2024 stands out.

The final indicators are the unemployment rate and the U-6 broad measure of underemployment. There is nothing in the recent data that stands out.



So, in sum, these data suggest no decline in demand, or perhaps a small rise. In contrast, there is some evidence of pullback in labor supply. If these trends persist, labor market tightness will return, raising the specter of upward wage pressures hindering the progress toward the 2 percent inflation target.