S&P Global
Ratings

The April Jobs Report: Spring Breeze

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This report does not constitute a rating action

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U.S. nonfarm payrolls felt like a spring breeze, with a stronger-than-expected 428,000 job gains in April. The prior two months were revised down by a net 39,000, according to the Bureau of Labor Statistics' (BLS) April jobs report, bringing total job gains closer to consensus estimates of 400,000.

But with every spring, there are bug bites. The unemployment rate from the household survey held at 3.6% (just above the pre-pandemic low of 3.5%), but for the wrong reasons--353,000 people got jobs and even more people (363,000) left the labor force. The labor force participation rate dipped to 62.2% from 62.4% in March. An increasingly tight jobs market bodes poorly for labor productivity and growth.

The report also gives the Fed reason to aggressively fight the huge price run-up, convinced that the U.S. economy can absorb tighter Fed policy and still grow. We see the Fed raising rates each meeting in 2022, with at least three back-to-back 50-basis-point (bps) hikes. The risk is for more tightening.

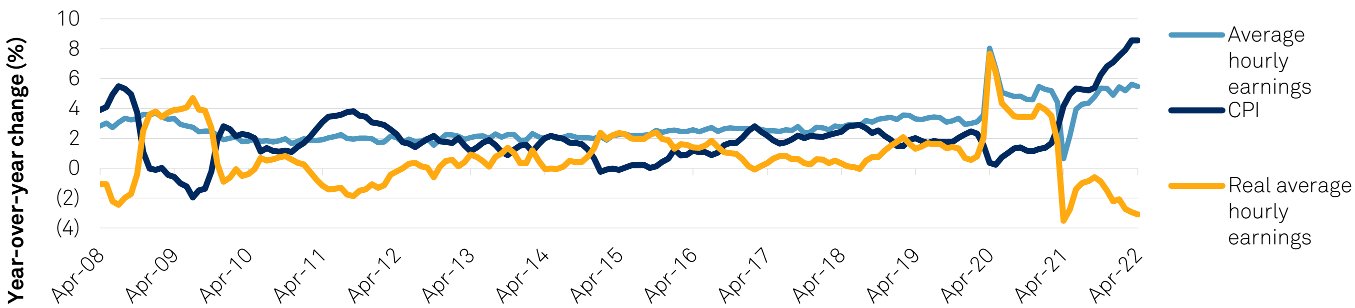
Our Take On The BLS' Jobs Report

Not everything was positive. Job gains were strong in April, but continued bottlenecks in the jobs market are weighing on economic activity. The labor-force participation rate is at 62.2, a 45-year low. Hours worked held at 34.6 hours, supporting our belief that the pandemic-driven pickup in longer hours by fewer workers is no longer in vogue.

Wages and inflation. Workers continued to enjoy fatter paychecks, with average hourly wages up by 0.3% for the month and 5.5% over last April. But higher overall CPI (Consumer Price Index) price gains, at a 40-year high, will continue to take a bite out of paychecks, with wage gains, in real terms, still stuck in negative territory. Inflation risks are also climbing higher on further supply-chain disruptions from the Russian-Ukraine conflict and as China's zero-tolerance policy slows mobility.

A big bang. Although the Fed's liftoff was gradual, with a 25 bps hike in March, the solid jobs report and inflation readings at four-decade highs give the Fed more reason to follow a "big bang" approach. As expected, the Fed raised rates by 50 bps at its policy meeting in May and announced it would start quantitative tightening this June. While this is the first time since 2000 that the Fed has raised rates by 50 bps, we don't believe it will be the last. The Fed is already behind the curve, so baby steps won't work this time if it's going to catch up. We expect another 50 bps rate hike in June and wouldn't be surprised if the Fed goes for the trifecta, with a third 50 bps hike in July. Despite recent statements, we can't rule out chances that the Fed decides to rip off its monetary accommodation band-aid quickly, with a 75 or 100 bps move this year.

Average Hourly Wage Gains Climb Higher But Are Negative In Real Terms



Note. April CPI is an estimate. Sources: U.S. Bureau of Labor Statistics and S&P Global Economics.