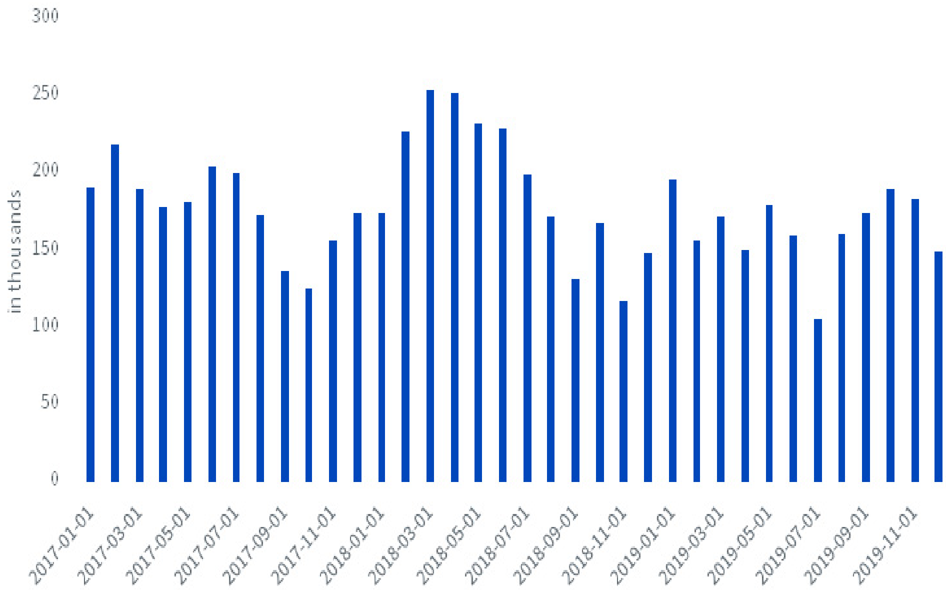
U.S. LABOR MARKET ACTIVITY: SLOWING, NOT WEAKENING

Kevin Flanagan – Head of Fixed Income Strategy
09/06/2023

While the Fed has emphasized that future policy decisions—i.e., the potential for another rate hike—would be based on the "totality" of upcoming economic data, make no mistake, employment reports go to the front of the line. There is a variety of labor market-related data to choose from, with the monthly Employment Situation release offering the most encompassing insights. Taking in the totality of the recent jobs numbers, I come to the conclusion that labor market activity looks to be softening, not weakening. While some market observers may not draw a distinction between these two descriptions, you can bet the Fed, as well as the money and bond markets, does.

U.S. Total Nonfarm Payrolls – 3-Month Moving Average

U.S. Total Nonfarm Payrolls – 3-Month Moving Average



Source: Bureau of Labor Statistics, as of 9/1/23.

Obviously, the first place to look at is the level of new job creation, as measured by total nonfarm payrolls. For August, overall payrolls rose a slightly better than expected +187,000. That headline number in and of itself could be considered a relatively good outcome, considering the economy has endured 525 basis points worth of Fed rate hikes since last March. However, in a less well-known stat, the prior two months' tallies were revised downward by a combined -110,000.

In order to smooth out monthly volatility, a good practice is to look at three-month moving averages, and that is where a more visible slowing trend in new hiring becomes apparent. The most recent figure on that front put new hiring at +150,000, a decline of -31,000 from July's +181,000 reading. In fact, as the top bar chart illustrates, the three-month moving average has been consistently edging lower throughout all of this year.

This is where it gets a little interesting, though. If you look at the three-month trend numbers from 2017 through 2019 (pre-COVID-19), the current level is not really all that bad and only 27,000 below the monthly average for that entire three-year period.

Another measure of employment that is closely followed is the jobless rate. In August, the unemployment rate rose +0.3 pp to 3.8%. However, this was due to a +736,000 surge in the civilian labor force, typically viewed as a good sign for labor market activity. Civilian employment (the alternate job creation gauge) actually rose a solid +222,000, but that was not enough to offset this large inflow into the labor force.

Conclusion

The expectation was for no Fed rate hike at this month's FOMC meeting, and the August jobs data does nothing to change that narrative, but we do have one more CPI print before the September 20 convocation.

Either way, "higher for longer" with no rate cuts on the horizon remains the Treasury market backdrop.

For standardized performance and the most recent month-end performance click here NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

Related Blogs

+ Five Alive
+ Does What Goes Up Have to Come Down?
+ Budget Deficits Come into Focus

View the online version of this article here.

IMPORTANT INFORMATION

U.S. investors only: Click here to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Bond market : The bond market–often called the debt market, fixed-income market, or credit market–is the collective name given to all trades and issues of debt securities. Governments typically issue bonds in order to raise capital to pay down debts or fund infrastructural improvements.

Basis point : 1/100th of 1 percent.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Consumer Price Index (CPI) : A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.