HilltopSecurities

Unexpected April Labor Strength Boosts Bond Yields

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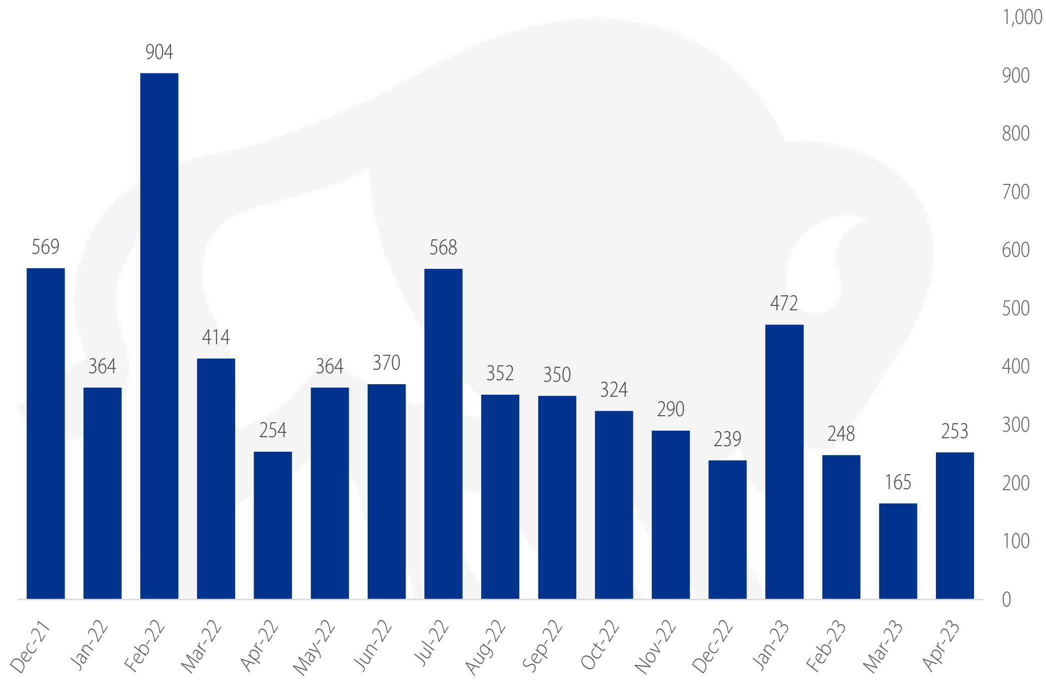
The April jobs report didn't cooperate with market expectations for slowing economic growth and retreating wages. U.S. companies added +253k payroll jobs last month, exceeding all but three of 77 forecasts in the Bloomberg survey, while hourly earnings rose by a too-solid +0.5%, and the unemployment rate fell back to a 54-year low. *None of these headlines point to a near-term policy pivot by the Fed.*

Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics

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Non-farm payrolls rose by +253k, well above the +185k median forecast. Private sector payrolls increased by +230k, nearly double the revised March total. Digging deeper into the jobs numbers, both previous month payroll totals were revised lower, with March whittled down from +236k to +165k, and February from +311k to +248k. On one hand, this reduces total payrolls; but on the other hand, the April count just became the highest since January.

The participation rate for prime-age workers (25 to 54-years old) has now climbed above the pre-pandemic level. This supports the idea that sidelined workers are predominantly early retirees.

Notable April payroll additions were found in professional and business services (+43k), healthcare (+40k), leisure and hospitality (+31k), social services (+25k), local governments (+20k), construction (+15k), manufacturing (+11k) and retail (+8k).

The headline unemployment rate unexpectedly slipped from 3.5% to 3.4%, returning to the lowest point since 1969. The drop results from a slight decline in the total number of workers in the labor force last month. However, the participation rate for prime-age workers (25 to 54-years old) has now climbed *above the pre-pandemic level*. This supports the idea that sidelined workers are predominantly early retirees.

As of April, there were 5.7 million Americans actively seeking work, while the most recent JOLTS report showed 9.6 million job postings. *Hard to argue the labor market isn't extremely tight.*

Average hourly earnings, perhaps the most important single data point in the report as far as Fed officials are concerned, rose by +0.5% last month, well above the +0.3% median forecast. Over the past 12 months, earnings are up +4.4%. This unexpected increase can be attributed to more of the recent job gains being in the higher income categories.

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The bond market is still signaling a series of rate *cuts* beginning in mid-September, but today's employment release appears much too hot to release the brake. Earlier this week, Powell repeatedly voiced concerns over the tight labor market; *today's release indicates it's even tighter.* That doesn't mean job growth and the overall economy won't decelerate in the coming months …especially given the double-whammy of the debt ceiling crisis and fragile confidence in the banking system.

For now, persistent labor strength supports the Fed's insistence that a pivot isn't likely before early 2024. Rate hikes are probably over, but the pause may be much longer than the markets have anticipated.

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Market Indications as of 9:29 A.M. Central Time

DOW	Up 436 to 33,564 (HIGH: 36,800)
NASDAQ	Up 188 to 12,154 (HIGH: 16,057)
S&P 500	Up 17 to 4,134 (HIGH: 4,797)
1-Yr T-bill	current yield 4.74%; opening yield 4.54%
2-Yr T-note	current yield 3.89%; opening yield 3.79%
3-Yr T-note	current yield 3.62%; opening yield 3.51%
5-Yr T-note	current yield 3.40%; opening yield 3.33%
10-Yr T-note	current yield 3.44%; opening yield 3.38%
30-Yr T-bond	current yield 3.77%; opening yield 3.73%