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## April Employment Report: Supply Side Constraints Weigh On Growth Outlook

- › Nonfarm employment **rose** by 266,000 jobs in April; prior estimates for February/March were revised **down** by 78,000 jobs
- › Average hourly earnings **rose** by 0.7 percent while aggregate private sector earnings **rose** by 1.2 percent
- › The unemployment rate **rose** to 6.1 percent in April (6.095 percent, unrounded); the broader U6 measure **fell** to 10.4 percent

Total nonfarm employment rose by 266,000 jobs in April, far below the better than one million jobs we and the consensus expected, with private sector payrolls up by 218,000 jobs and public sector payrolls up by 48,000 jobs. Prior estimates of job growth in February and March were revised down by a net 78,000 jobs for the two-month period. Average hourly earnings rose by 0.7 percent, and the average length of the workweek rose by one-tenth of an hour. As such, aggregate private sector wage and salary earnings rose by 1.2 percent. The unemployment rate rose to 6.1 percent as an increase in labor force participation offset growth in household employment. In all honesty, it is hard to know what to make of the April employment report, and it's hard for us to recall an instance in which a number came in so far out of alignment with expectations. One factor contributing to the dramatic slowdown in the pace of job growth in April is that firms are having difficulty attracting workers. This is not necessarily at odds with the increase in labor force participation in April, as the participation rate is still well below the pre-pandemic rate. There are some signs of labor supply constraints in the April data, such as the increase in hours worked and broad based increases in hourly earnings.

For instance, payrolls in leisure and hospitality services rose by 331,000 jobs in April, a much smaller increase than we had anticipated given further reopening of the economy and increasing numbers of people being vaccinated. What really stands out here, however, is that average hourly earnings in leisure and hospitality services jumped by \$0.29 while average weekly hours in this industry group rose by half an hour. To be sure, both hourly earnings and weekly hours in this industry group are well below private sector averages, but the magnitude of the increases seen in leisure and hospitality services in April is nonetheless striking.

Increases in average weekly hours were broad based across industry groups in April, though construction stands out with a curiously large (three-tenths of an hour) decline. Additionally, data from the household survey show the number of people working part-time for economic reasons (i.e., they would prefer full-time work but can only find part-time

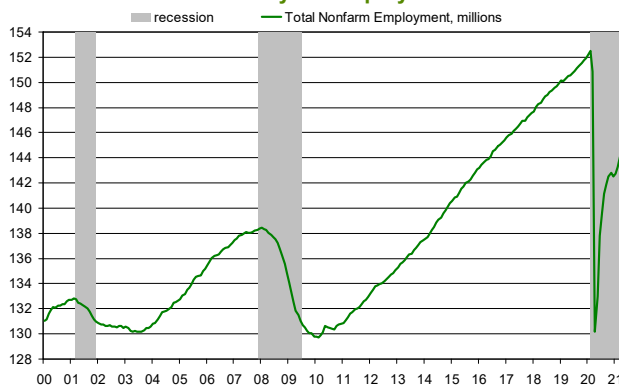
work) fell sharply, from 5.826 million people in March to 5.243 million people in April. Hours worked are one lever firms can pull to add to total labor input when they cannot find sufficient numbers of workers to hire, so average weekly hours will be a key metric to watch in coming months.

The impact of the global shortage of semiconductor chips is apparent in the April employment report, with manufacturing sector payrolls falling by 18,000 jobs. This is more than accounted for by payrolls amongst motor vehicle producers falling by 27,000 jobs as increasing numbers of plants are being idled or run at less than full capacity despite still-solid demand for motor vehicle purchases. To the extent shortages of raw materials and supply chain issues are weighing on production across the manufacturing sector, that would help account for the surprisingly large decline in payrolls amongst courier/messenger services, which fell by 77,400 jobs in April. Construction payrolls were flat in April, and hiring in residential construction softened considerably, which makes the reported decline in average weekly hours more confounding. Still, this is one industry group in which labor supply constraints had been a significant issue well before the pandemic. Moreover, it could be that the April employment data reflect growing constraints on input supplies, such as lumber, that are causing builders to scale back production.

As noted above, we'd be hard pressed to come up with another instance in which the gulf between expectations and reality is as wide as is the case with the April employment report. While you could argue that this is a one-off miss in the context of a rapidly recovering economy, making a plausible argument along those lines is a much bigger ask. Instead, the April employment report could be a sign that we and others need to temper our expectations for how rapidly the economy will grow in the quarters ahead. Clearly, demand is not the problem, particularly with over \$2 trillion in excess saving on household balance sheets. Instead, the ability to meet that demand is a growing issue, in terms of supplies of labor and non-labor inputs. Whether these constraints will ease isn't so much the question as when they will ease, and that won't likely happen quickly, and in the interim that has implications for growth and inflation.



### Total Payroll Employment



### Change In Nonfarm Payrolls

