

June 3, 2022

Another larger job gain reported in May in the U.S.

- Payroll employment rose by 390k, close to consensus expectations
- The unemployment rate held at 3.6%; participation rate stalled
- Wage growth still elevated but close to being outrun by inflation

A 390k increase in payroll employment marked another robust labour market outcome in the U.S. in May, even as businesses grapple with wide-spread labour shortages. Most industries added jobs, but gains were more notable in leisure and hospitality (+84k) and professional and business services (+75k). The unemployment rate at 3.6% was unchanged from April and around pre-pandemic lows. The labour force participation rate has been much slower to come back at 62.3% in May relative to a percent higher in February 2020. Aging demographics and shifting job preferences during the pandemic have both made post-pandemic hiring a lot more difficult, Attributing to tightening in labour markets that can't be easily addressed in the near-term.

Labour shortages are particularly acute for high-contact client facing industries. In May, the number of jobs in leisure and hospitality was still down 1.3 million from pre-pandemic, accounting more than the total employment shortfall of 822k. Many of the workers that have switched industry over the pandemic will be harder to convince to return. Acute labour shortages also mean that workers have been able to negotiate higher wages. Average hourly earnings in May were 5.2% above last year for all private industries, and 10.3% above for leisure and hospitality.

U.S. inflation rapidly catching up with wage growth



Data Summary:

	Mar-22	Apr-22	May-22	May-22
	m/m change, thousands			12mth avg
Payroll employment	398	436	390	545
Private	385	405	333	521
Public	13	31	57	24
Hourly wages (m/m %)	0.5	0.3	0.3	5.2 (y/y %)
				y/y change
Unemployment rate	3.6	3.6	3.6	-2.2
U6	6.9	7.0	7.1	-3.0
Participation rate	62.4	62.2	62.3	0.7

Source: Haver, RBC Economics Research

Wage growth is set to accelerate further in the near-term but whether that's enough to outrun inflation growth remains uncertain. On average relative to 2019, wages through April grew at a 4.7% rate per-year, faster than the 4.2% rate for price growth. However, the gap between the two has been narrowing significantly. And that is cutting into growth in real purchasing power. With inflation elevated at levels well above Fed's 2% target, and labour markets further tightening, we expect to Fed to keep moving faster to raise the Fed Funds rate back to neutral range – including another anticipated 50 bps hike at the next policy decision on June 15th.

Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639
For more economic research, visit our website at www.rbc.com/economics