

September 2, 2022

U.S. unemployment rate ticked higher in August

- Payroll employment added 315k jobs, the bulk of which in service industries
- The unemployment rate ticked higher to 3.7% on an increase in permanent job losses
- Fed rate hikes to slow consumer demand, and push unemployment up more into 2023

Payroll employment cooled slightly in August with a 315k increase, down from 456k average increase year-to-date through July but still higher than the 190k run rate over the 5 years pre-pandemic. The increase in employment was widespread across sectors but was also the largest in professional and businesses services (again), which added 68k jobs and saw overall employment rise to over a million above levels in February 2020. Despite the job gains, the unemployment rate ticked higher from 3.5% to 3.7% in August. That is still low by historical standards, but the fact that most of it was driven by a 188k increase in workers that have lost their jobs permanently might be signaling a turning point for a labour market that's been overheating for some time. Wages grew 5.2% above last year but was again higher in services sectors (+5.4%), especially leisure and hospitality (+8.6%) where labour shortages are more acute.

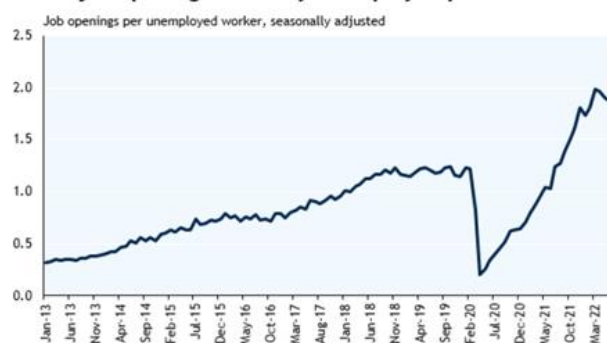
The near-term outlook for overall employment growth should be floored by elevated hiring demand, that's still far outpacing available workers in the market. In July, there were almost 2 job openings for every unemployed worker. That's well above the ratio of 1.2 in February 2020. But with the Fed continuing to hike interest rates to bring inflation lower, we expect consumer demand to start pulling back more significantly into next year. That should work to slow business activity as well as hiring demand. Indeed, on top of the increase in the number of permanent job losers in August, there have been other early tentative signs of conditions moderating. Aggregate job openings have been trending lower since March and initial jobless claims have been edging, on balance, higher. Receding demand means the labour market should be able to find more balance by the end of this year, before further deteriorations push the economy into a mild recession in 2023.

Data Summary:

	Jun-22	Jul-22	Aug-22	Aug-22
	m/m change, thousands			12mth avg
Payroll employment	293	526	315	487
Private	346	477	308	475
Public	-53	49	7	12
Hourly wages (m/m %)	0.4	0.5	0.3	5.2 (y/y %)
	%			y/y change
Unemployment rate	3.6	3.5	3.7	-1.5
U6	6.7	6.7	7.0	-1.8
Participation rate	62.2	62.1	62.4	0.7

Source: Haver, RBC Economics Research

Two job openings for every unemployed person in the U.S.



Source: Bureau of Labor Statistics

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