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Authors:
Deepak Puri, CFA®
Chief Investment Officer Americas

Sam Matthews
Head of Chief Investment Office Americas

Shreenidhi Jayaram
Investment Strategist

Nonfarm payrolls: A softer print at last!

Key takeaways

- The latest Nonfarm payrolls report delivered notably lower-than-expected jobs figures for the month of April, with cumulative downward revisions seen for the previous two months.
- Payrolls increased by +175,000 in April, lower than the expected number of +243,000. The unemployment rate slightly increased to 3.9% whilst monthly wage growth came in +0.2%, bringing the annualized rate down to +3.9%.
- Markets appeared to react positively to the softer report, giving further evidence that the economy is finally beginning to show signs of a cooldown. Expectations for the first rate cut were pulled forward from November to September.

1. What happened?

Today, the latest U.S. jobs report for April showed an increase of +175,000 versus an expected increase of +243,000, marking the first time in the last six months where the numbers were below expectations. Alongside the latest jobs numbers, downward revisions were made to the previous two months of data, removing a total of -22,000 jobs from their respective periods.

The unemployment rate increased back to 3.9% from 3.8% with the number of unemployed persons at 6.4 million. The labor force participation rate remained at 62.7%, continuing to remain below pre-pandemic levels of 63.4%. Within the household survey, average hourly earnings came in at +0.2% MoM, lower than last month's gain of +0.3%. Average hours worked decreased to 34.3 from 34.4 the month prior.

Payroll gains were seen across various sectors last month with healthcare seeing the most gains (+56,000) followed by social assistance (+31,000) and transportation and warehousing (+22,000). Construction (+9,000) and government (+8,000) also saw positive job gains.

Even if job losses were seen in certain subsectors within retail trade such as clothing, clothing accessories, shoe and jewelry retailers (-3,700) and electronics and appliance retailers (-3,000), there were notable overall gains in retail trade employment (+20,000) after seeing an average 12 month gain of +7,000 jobs per month. Employment in mining, quarrying, oil and gas extraction registered minor changes along with other industries such as financial activities and leisure and hospitality.

Healthcare and social assistance continues to contribute to about half of the growth in employment numbers. Overall, the slight increase in unemployment rate back to the 2-year high of 3.9% is pointing to the cooling down of the labor market.

2. How did markets react?

Investors reading of today's jobs reports appeared to be a positive one as the data reinforced that the U.S. labor market is showing signs of a meaningful cooldown coming off the hotter-than-expected streak of job gains this past quarter. At the time of writing, both the S&P 500 and NASDAQ were trading at +1.06% and +1.85% respectively. Yields moved lower across the curve with the 2-Year Treasury moving to 4.80% and the 10-Year Treasury to 4.51%.

Post the strong employment report, Fed Fund Futures increased the probability of a rate cut during the September FOMC meeting to 52%, bringing forward expectations of the first move from November.

3. What does it mean for investors?

Today's job report shows that the U.S. economy added fewer jobs than expected reinforcing the possibility that the economy may finally be responding to the Fed's restrictive policy. Average hourly earnings decreased slightly in April compared to March (from 0.3% to 0.2%) with annualized wage gains dropping to 3.9%, marking the lowest gain seen in the last two years. The combination of the unchanged labor force participation rate (which remained at 62.7%) with moderating wage gains points to easing wage inflation and a better balance between labor supply and demand.

Earlier this week, the latest Job Openings and Labor Turnover Survey (JOLTS) reached a three-year low as the number of available jobs decreased by 325,000 to 8.49 million. Additionally, the ADP private payroll report saw companies add lesser jobs in April (+192,000) compared to March (+208,000).

Overall, the jobs report gives welcome news. The economy has added fewer jobs than expected which may serve as a key indicator for the Fed to begin transitioning into rate cuts later this year. However, the Fed is highly likely to continue looking for other economic indicators that point to a sustained cooling of the economy before delivering the first cut in rates. Rate cuts are less likely to come in June and the timeline of the cut may be extended towards the final quarter of 2024.

The next key data point released will be April's CPI number (May 15th). If the inflation report does not show a softer picture, the Fed may continue to hold rates steady for longer.

Today's nonfarm payrolls report signals that the labor market is starting to show signs of a cooldown and depending on the upcoming CPI report, there could be renewed optimism for a rate cut sooner rather than later.

Glossary

The consumer price index (CPI) measures the price of a basket of products and services that is based on the typical consumption of a private household.

The Fed funds rate is the interest rate at which depository institutions lend overnight to other depository institutions.

The Federal Reserve (Fed) is the central bank of the United States. Its Federal Open Market Committee (FOMC) meets to determine interest rate policy.

The Job Openings and Labour Turnover Survey (JOLTS) produces survey data on job openings, hires and separations over the previous month.

The NASDAQ index is a market-capitalization weighted index of around 3,000 equities listed on the Nasdaq exchange.

The Nonfarm payrolls is a monthly report that measures the change in people employed during the previous month, excluding the farming industry.

The S&P 500 Index includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

Treasuries are bonds issued by the U.S. government.

USD is the currency code for the U.S. Dollar.

Historical Performance

Performance	05.03.2019 – 05.03.2020	05.03.2020 - 05.03.2021	05.03.2021 - 05.03.2022	05.03.2022 - 05.03.2023	05.03.2023 - 05.03.2024
S&P 500	-2.0%	50.6%	1.0%	-0.3%	25.7%
NASDAQ	5.4%	61.5%	-9.6%	-4.3%	34.2%
2-Year U.S. Treasury	5.2%	0.1%	-3.6%	1.0%	1.7%
10-Year U.S. Treasury	20.0%	-7.5%	-9.8%	-0.2%	-6.1%

Source: LSEG Datastream, Deutsche Bank AG. Data as of May 3, 2024.

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