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A Cooling Labor Market

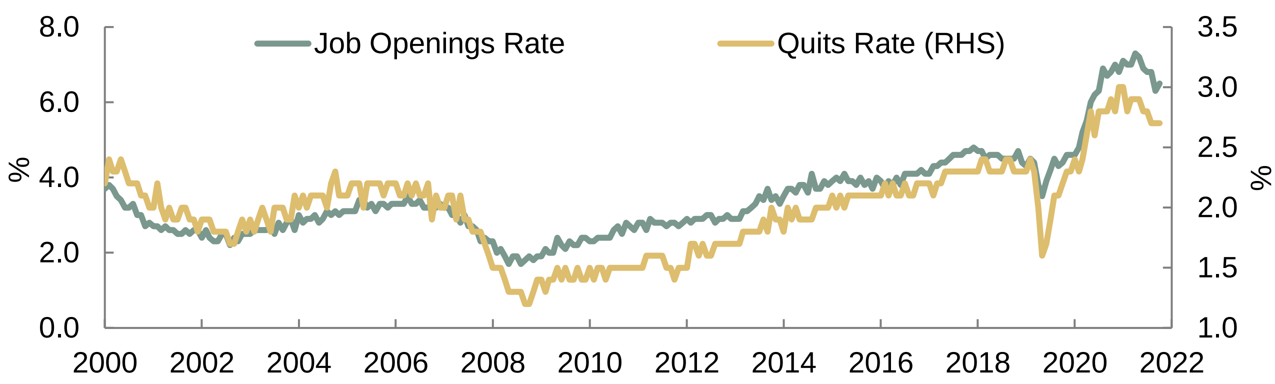
The Job Openings and Turnover Survey (JOLTS) provides useful information on the state of the labor market. JOLTS data show that labor demand is slowing. This should become more evident in the October employment report due this Friday. In addition, **there is some anecdotal evidence that wage pressure is moderating, which should allow the Fed to dial down the pace of tightening following an expected 75 basis points November rate hike**.

Job openings were higher than expected, rising from an upwardly revised August reading of 10.28 million (was 10.053 million) to 10.717 million in September. But as we can see from the chart below, the job openings rate, which is the ratio of job openings to the labor force, rose only slightly. At 6.5%, the series is up a couple of tenths from August but remains well below its cyclical peak of 7.3% this past March. The September increase in the job opening rate could be temporary in what still appears to be a powerful downtrend. **A downtrend in the job openings rate means labor demand is softening**.

At the same time, the quits rate is moving sideways. Typically, a rising quits rates signals rising wages, because workers are either being bid away, or they are confident they can find better job prospects elsewhere. Quits have been steady at 2.7% for three months in row, down from last year's 3.0% peak in November and December 2021. **Wage growth is showing some tentative signs of slowing**. Average hourly earnings are up at a 4.4% annualized rate over the past three months. This compares to a 6%-plus annualized pace late last year.

A cooling labor market should be evident from the October employment report. A consensus-like 190k increase in nonfarm payrolls produces a three-month moving average of 256k, down from 372k in the previous month. While historically healthy, **this would represent the slowest change since the three months ending January 2021**. This, too, would support a dialing down in the magnitude of Fed tightening. However, it is important to note that Chair Powell will not have the employment data when policymaker complete tomorrow's FOMC meeting.

Falling Job Openings and Quits Rate



Sources: Federal Reserve, Haver, SMBC

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