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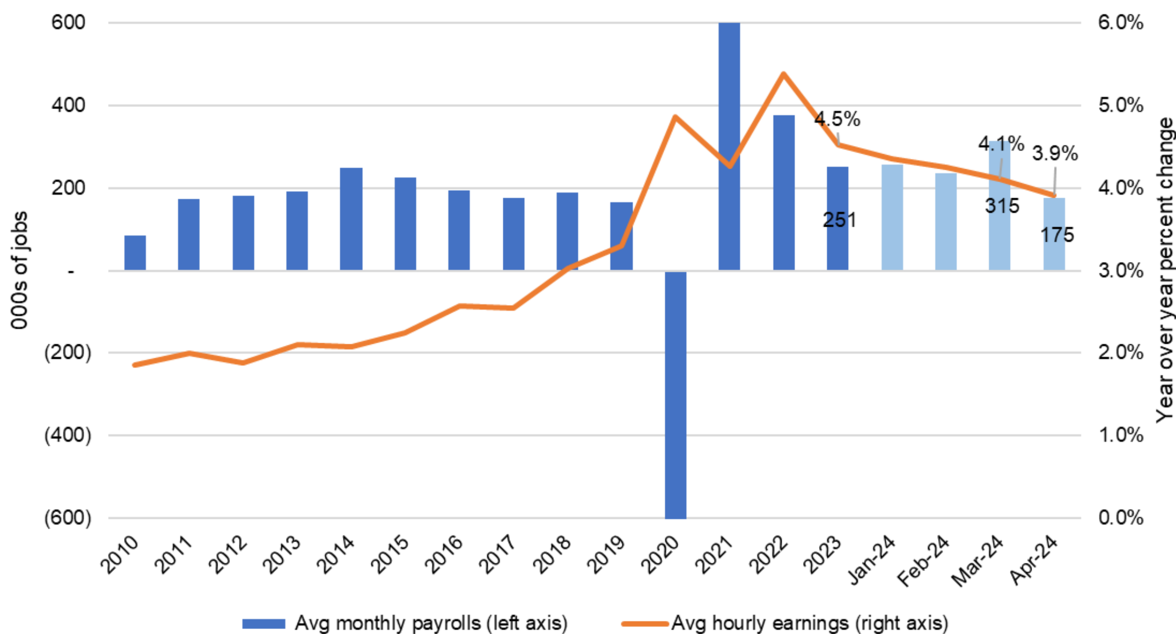
RESEARCH AND ECONOMICS

Chart of the Week - May 10, 2024

Monthly Payroll Growth and Average Hourly Earnings



Source: Bureau of Labor Statistics

The Federal Open Market Committee (FOMC) left the federal funds target unchanged at its May meeting, as incoming data regarding the strength of the economy and stubbornly high inflation have resulted in a shift in the expected timing of a first rate cut. In recent weeks, several Federal Reserve officials have noted that they are in no hurry to change the stance of monetary policy. The statement following the May meeting highlighted that there has not been further progress towards the Fed's 2% inflation goal.

This week's Chart of the Week is based on the April jobs report, which was released two days after the FOMC meeting and showed a little less strength than expected in terms of payroll growth, wage growth, and unemployment. The economy added 175,000 jobs in April, a slowdown from 315,000 jobs in March and the smallest gain to date in 2024. Additionally, average hourly earnings grew 3.9% from a year ago, a third consecutive deceleration in wage growth and the slowest since May 2021. Both metrics were down from 2023's annual averages of 251,000 jobs added and 4.5% wage growth. This slowdown in wage growth indicates there has been some cooling in hiring that will help ease some of the upward pressure on service sector inflation, which has been a large contributor to headline inflation staying stubbornly higher than 2%. Wage growth in the 3% range is typically more consistent with 2% inflation.

The unemployment rate, which is not shown in the chart, ticked up slightly to 3.9 percent, close to the highest level since early 2022, but still low by historical standards.

A softer job market and a downward trend in wage growth might open the door to an earlier rate cut from the Fed if the job market continues to weaken and if inflation trends start to follow. After this release, market odds of an earlier rate cut rose slightly and the 10-year Treasury yield started to drift lower. However, until there is more data showing that inflation is making progress toward the Fed's 2% target, we maintain our view that rates will likely have to stay higher for longer.

With our April forecast, we lowered our figures for originations and marked up our expectations for mortgage rates, and the FOMC decision confirmed those revised expectations. We expect mortgage rates to drop later this year, but not as far or as fast as we previously had predicted, even with the April jobs release, as there are still other pieces that need to fall in place for inflation to drop further, shelter inflation being one of those components.

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