Economic Watch

More Jobs to Fill but Fewer Hires in April

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Despite Record-High Job Openings, Dovish Fed Can't Ignore Underlying Issues

- **Job openings hit highest level since December 2000 in April, but hiring declined**
- **The number of unemployed per job opening dropped to 1.59 from 1.68 in March**
- **Still no change in FOMC expectations for a September liftoff as we approach June meeting**

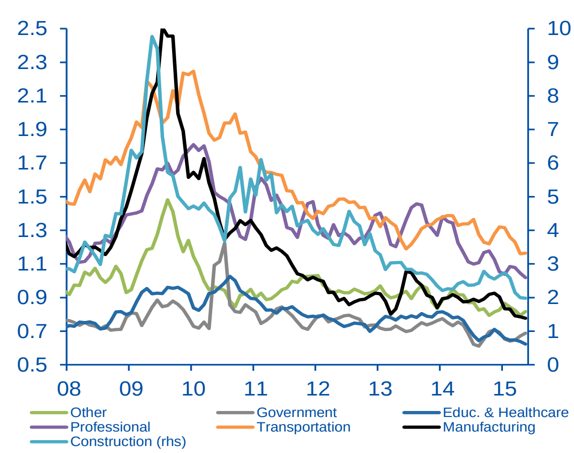
The latest data from the Job Openings and Labor Turnover Survey (JOLTS) confirm the ongoing labor market improvements at face value but continue to hint at underlying challenges that remain. Job openings increased a healthy 5.2% in April to 5376K alongside an upward revision to March's data (from 4994K to 5109K). Furthermore, the job openings rate jumped to 3.7% from 3.5% in the previous month. With this report, openings have officially surpassed the highest level of the historical series, which began in December 2000. By industry, health care and social assistance led the way with a 12.4% increase in openings for April, followed by a 10.0% jump in trade, transportation, and utilities. Job vacancies for construction and manufacturing declined 8.9% and 1.8%, respectively.

While the jump in job openings is encouraging, the lack of hiring remains a concern. Total hires declined 1.6% in April to 5007K, the lowest level since January, and the hires rate fell to 3.5%. This lack of consistency between the two series suggests that businesses are having difficulty filling positions despite the fact that they are actively searching for candidates. The National Beveridge Curve also confirms this structural mismatch as the post-crisis trend remains much different than what was implied before 2008.

Chart 1
Job Openings and Hires (SA, Thousands)

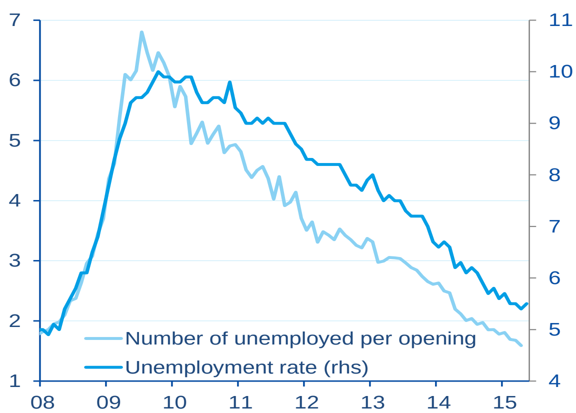
Source: BLS & BBVA Research

Chart 2
Vacancy Yield by Industry (3MMA)



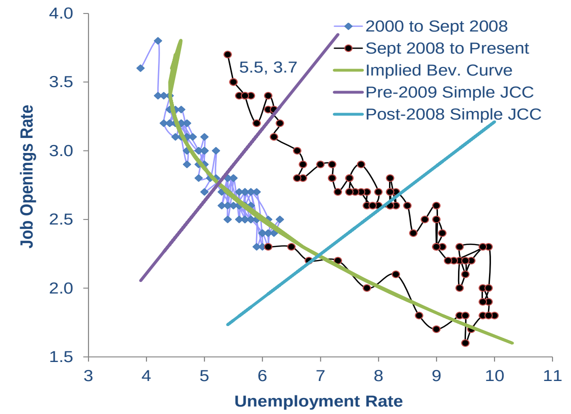
Source: BLS & BBVA Research

Chart 3
Unemployed/Opening vs. Unemployment Rate (%)



Source: BLS & BBVA Research

Chart 4
National Beveridge Curve



Source: BLS & BBVA Research

A key component to follow with the JOLTS report has been the number of unemployed per job opening, which spiked to nearly 7.0 during the crisis. The number held above 2.0 until August of last year and has now dropped near historical lows, at 1.59 in April compared to 1.68 in March. Before the crisis, the series flowed hand-in-hand with trends in the unemployment rate, but throughout the recovery we have seen a decoupling between the two series. This adds another dimension to the structural concerns and also makes it a bit more difficult to determine the true slack remaining in the labor market. With the number of unemployed per opening so low, why haven't we seen a significant jump in wages? The hidden pool of unemployed workers (those who have left the labor force and are no longer counted in the unemployment rate) may be one explanation if businesses are hiring directly from this group. Still, the fact that employers are having trouble filling open positions suggests that they should be willing to increase wages in order to find an appropriate match. The fact that this has not put upward pressure on wages is another concern that is likely holding back the Fed from confidently moving forward.

Chart 5
Fed's Economic Outlook

	Unemployment Rate	3MMA Change in Nonfarm Payrolls	Number of Unemployed per Job Opening	PCE Core Inflation (YoY)	Average Hourly Earnings (YoY)
Goal	5.2% - 5.5%	200K	2.00	2.00%	+2.50%
QE3 Start (Sept-12)	7.8%	157K	3.38	1.66%	1.44%
Dec-13	6.7%	198K	2.64	1.34%	2.16%
QE3 End (Oct-14)	5.7%	228K	1.85	1.48%	2.27%
April/May 2015	5.4%	207K	1.59	1.24%	2.04%

Source: FRB, BLS, BEA, & BBVA Research

Bottom Line: FOMC Still Wading Through Too Much Data for June Liftoff

In “normal” times, the JOLTS data are not meant to be market movers, particularly due to the fact that the reports are lagged an additional month compared to the heavily watched nonfarm payroll release. However, the past year has put the JOLTS in the spotlight, with many FOMC members (most importantly Janet Yellen) highlighting the report as a significant indicator to monitor. Less than a year ago, market expectations had pointed to a June liftoff for the Federal Reserve – now, that probability has dropped near zero as weak first quarter data and low inflation support a more dovish timeline. Although we do not expect the first rate hike until September, we sit only a week away from that June meeting and tensions are running high. Any signs of significant improvement in either inflation or the labor market could ignite the Fed’s plans. The JOLTS report for April is strong but will not be enough to push the Fed to increase rates immediately. Another three months of similar trends will likely make the doves more comfortable to finally begin their policy normalization by the time September rolls around.