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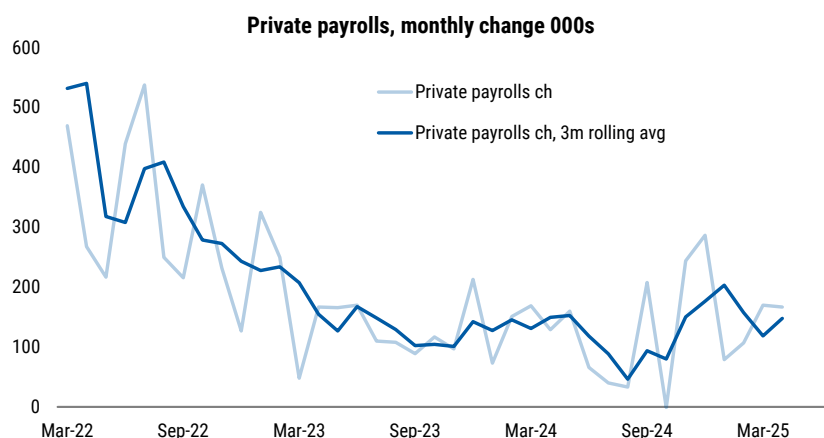
Strong April labor gains despite policy turmoil

The 177k rise in payrolls suggest continued business labor demand in April despite policy turmoil. The unemployment rate stalled but would have fallen except for higher participation. There's no sign of any slowdown ahead of tariff effects, which supports the Fed's tilt toward holding policy steady.

Key Takeaways

- Payrolls accelerated from 133k per month in 1Q to 177k in April. We think Easter timing probably added ~20k to private payrolls.
- Some hint of tariff-related pull-forward as transport payrolls rose 29k, about 2x their recent pace.
- Soft retail but strong leisure payrolls. Business services rebounded. Federal government fell 9k, a 3rd straight decline.
- The unemployment rate, at 4.19% after 4.15%, would have fallen to 4.0% but for higher participation.
- No sign of slowing in labor demand: This report supports a steady Fed at next week's FOMC meeting.

Exhibit 1: Momentum in private payrolls



Source: BLS, Morgan Stanley Research

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Strong April payrolls gave no sense that businesses were pulling back on hiring. The payroll survey period—the week that ended the 12th of April—was late enough to have reflected growing uncertainty around new trade policy. Recent jobless claims data indicate no significant rise in layoffs. The latest job openings data hinted that hiring might slow but were belied by the strength in payrolls. Private payrolls accelerated to 167k from 119k per month in 1Q and 148k per month over the past six months. In short, no sign of slowing despite policy turmoil.

A couple of factors probably boosted payrolls temporarily. Front-loading imports ahead of tariffs may have caused the surge in transport and warehousing payrolls, which rose 29k in April after half that pace over the past six months. Also, the timing of Easter may have biased payrolls up: Easter fell in late March last year and late April this year. In the past, similar swings have been associated with payrolls running above trend. The last similar swing was in 2019, and payrolls rose 90k more than their three month trailing average. The prior was in 2017, when they rose 45k more than their trailing average. Still, if the Easter effect was 20k and transport hadn't shown the effects of front-loading, private payrolls still would have run at close to their 1Q pace.

Payroll earnings remained strong. The workweek, which had lengthened in 1Q, did not lengthen further in April. As a result, aggregate production hours worked slowed slightly to 0.1% in April from a 0.2% per month average in 1Q. Furthermore, average hourly earnings growth slowed slightly, +0.2% versus our 0.3% expectation. However, payroll earnings growth rose at almost the same pace in April, 0.4%, as it had averaged in 1Q, 0.5%—still a support for consumption.

Consumer-facing retail and leisure payrolls were mixed. Leisure rose 24k after -3k per month on average in 1Q. But retail payrolls slipped by 2k—close to their +4k average pace of the past year but weaker than in the past two quarters.

Business services employment rebounded. There's no sign of a business-sector pullback around the tariffs.

Health and social services payrolls remained a source of strength, slowing only slightly with a 58k rise after an average of 73k per month over the past six months.

DOGE is having an effect. Federal government fell 9k (versus our -15k estimate), consistent with gradual layoffs and a slowdown in hiring. This was their 3rd straight decline. DOGE is having an effect on government payrolls, but as yet there's no sign of spillover into the private sector.

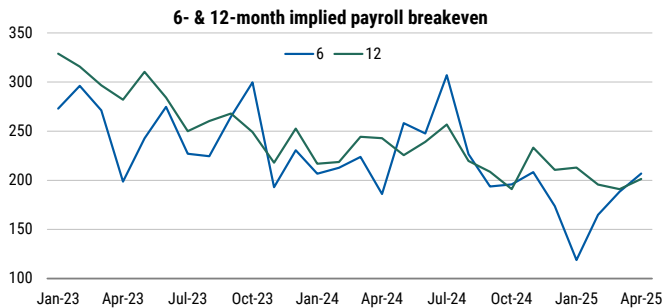
There were downward revisions to prior months but they don't change the message of momentum in hiring. Headline payrolls were cut by 58k on net and private by 48k. About half of the downward revision was to leisure and hospitality payrolls, which now show a slight decline in 1Q (-3k per month) before their 24k rebound in April. Transport and warehousing accounts for much of the rest of the downward revision, now running at about the same pace in 1Q as 4Q, but they too accelerated sharply in April.

The household survey echoed the strength in payrolls. The unemployment rate was unchanged at 4.2% (4.19% after 4.15%). It was stable despite a rise in the participation rate. Had participation remained steady, the unemployment rate would have fallen to 3.96%, the lowest since last May. There's been less sign of immigration effects than we've expected: slower immigration should slow labor force growth and put downward pressure

on unemployment. But this month's downward pressure was more because of strong labor demand. The payroll pace that holds the unemployment rate steady has only inched down in recent months.

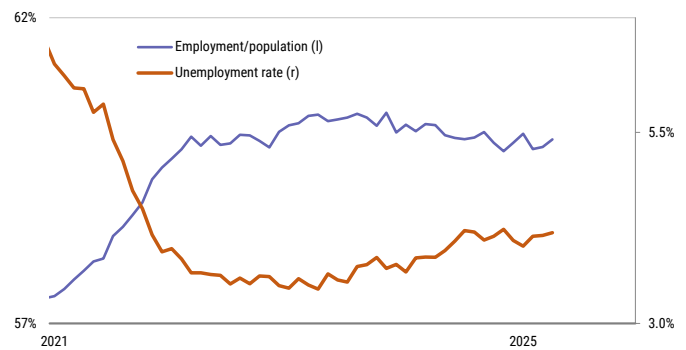
We continue to expect slowing as new trade policies slow activity, uncertainty lessens private hiring, falling federal employment spills into private sector jobs, and DOGE spending cuts lessen transfer payments. But there was no sign of those effects in April. Like private final domestic demand in 1Q in the GDP report, the April employment statistics were strong. There's nothing here to push the Fed towards a cut. Their decisions will depend on upcoming data and policy effects rather than on recent conditions.

Exhibit 2: Over the 12 months, a 200k monthly rise in payrolls has been consistent with a flat unemployment rate.



Source: BLS, Morgan Stanley Research

Exhibit 3: The unemployment rate stayed at 4.2% (4.19% in April after 4.15% in March).



Source: BLS, Morgan Stanley Research

Exhibit 4:
Employment report summary

monthly change, 000s	2024 average	2024 3Q avg	4Q avg	1Q avg	Jan	Feb	Mar	Apr	forecast	error	net revision
Establishment survey											
Payrolls, change, 000s	168	133	209	133	111	102	185	177	135	42	-58
Private	130	94	177	119	79	107	170	167	130	37	-48
Goods	6	9	-6	7	-11	24	9	11	-5	16	-5
Mining and logging	-1	0	0	0	-3	4	-1	1	0	1	1
Construction	16	21	7	5	-3	12	7	11	-5	16	-8
Manuf	-9	-13	-13	2	-5	8	3	-1	0	-1	2
Durables	-9	-13	-11	-1	-7	6	-2	2			0
MV	-2	-4	-2	-2	-10	6	-1	-5			-4
Nondurables	1	0	-2	3	2	2	5	-3			2
Services	124	85	183	111	90	83	161	156	135	21	-43
Wholesale	3	6	8	1	-4	7	-1	6	0	6	3
Retail	-1	-5	5	18	36	-4	22	-2	10	-12	-4
Transport & warehousing	11	3	18	14	21	18	3	29	15	14	-18
Utilities	1	1	-1	1	1	1	1	-1	0	-1	-2
Information	-2	-8	5	-2	-4	0	-2	0	0	0	-1
Financial	3	3	10	12	14	15	6	14	10	4	-4
Professional & bus services	-4	-21	13	-6	-35	15	3	17	-5	22	8
Temp	-13	-21	-1	-4	-8	-2	-3	4			
Private education	7	10	2	1	-1	8	-2	12	0	12	-3
Health & social services	77	65	79	66	62	57	77	58	65	-7	6
Leisure & hospitality	21	29	37	-3	-14	-34	38	24	30	-6	-22
Other services	8	3	7	10	13	0	17	-1	10	-11	-4
Government	38	39	33	14	32	-5	15	10	5	5	-10
State and local education	12	22	14	8	18	-4	10	8			
Average hourly earnings, m/m % ch	0.33	0.31	0.33	0.30	0.42	0.20	0.28	0.17	0.3	-0.1	0.0
12-month % ch, eop	4.0	3.9	4.0	3.8	3.9	3.9	3.8	3.8	3.9	-0.1	0.0
Production worker avg hrly earnings	0.33	0.34	0.32	0.31	0.4	0.4	0.2	0.3			
12-month % ch, eop	4.0	4.2	4.0	3.9	4.0	4.2	3.9	4.1			
Workweek	34.3	34.2	34.3	34.2	34.1	34.2	34.3	34.3	34.2	0.1	
Production workers	33.7	33.7	33.7	33.7	33.6	33.6	33.8	33.8			
Aggregate hours worked, % ch	0.04	-0.03	0.12	0.20	-0.17	0.34	0.43	0.09			
Aggregate payroll incomes, % ch	0.38	0.29	0.46	0.49	0.15	0.60	0.70	0.25			
Household survey											
Labor force*, change, 000s	154	271	-17	-24	-200	-466	617	286			
Employment*	101	252	-14	-53	-289	-817	789	235			
Unemployment*	53	19	-3	28	86	352	-172	51			
Unemployment rate, %	4.0	4.2	4.1	4.1	4.0	4.1	4.2	4.2	4.2	0.0	
Employment/population ratio	60.1	60.0	59.9	60.0	60.1	59.9	59.9	60.0			
Labor force participation rate	62.6	62.7	62.5	62.5	62.6	62.4	62.5	62.6	62.5	0.1	
Prime-age (25-54)	83.6	83.9	83.5	83.4	83.5	83.5	83.3	83.6			

Source: BLS, Morgan Stanley Research

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