U.S. JOB DATA REVEALED A COOLING LABOR MARKET – A CONUNDRUM BETWEEN ECONOMIC DOWNTURNS AND STICKY SERVICE INFLATION

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On 5th April, weekly jobless claims in the U.S. fell by 18,000 to 228,000. However, continuing claims increased by 6,000 to 1.823 million. On 7th April, the U.S. March non-farm payrolls were reported at 236,000, slightly below the expected 239,000. The unemployment rate fell to 3.5%, 0.1% lower than expected. The weak labor market data has led market participants to question whether the Fed's current restrictive policy brings the economy closer to a recession. However, from the Biden administration's perspective, the slight decline in employment signals the success of their anti-inflation efforts and the possibility of a soft landing.

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- Initial claims for state unemployment benefits fell to 228,000, which was 14% higher than expected, leading to a drop in stock and a rebound in Treasury yields

- The negative non-farm report caused a spike in the foreign exchange market, as the market now predicts a 52% chance of the Fed keeping target rates unchanged in May

- The Biden administration was pleased with the report as they have been advocating for slower job creation to combat rising consumer prices and economic instability

- Bond investors responded to the resilient nonfarm data with a rise in yields, reflecting expectations of further rate increases by the Fed

- As ongoing monetary tightening forces companies to continue protecting their margins, large-scale layoffs in the U.S. are expected to take place