MILLER TABAK + CO., LLC

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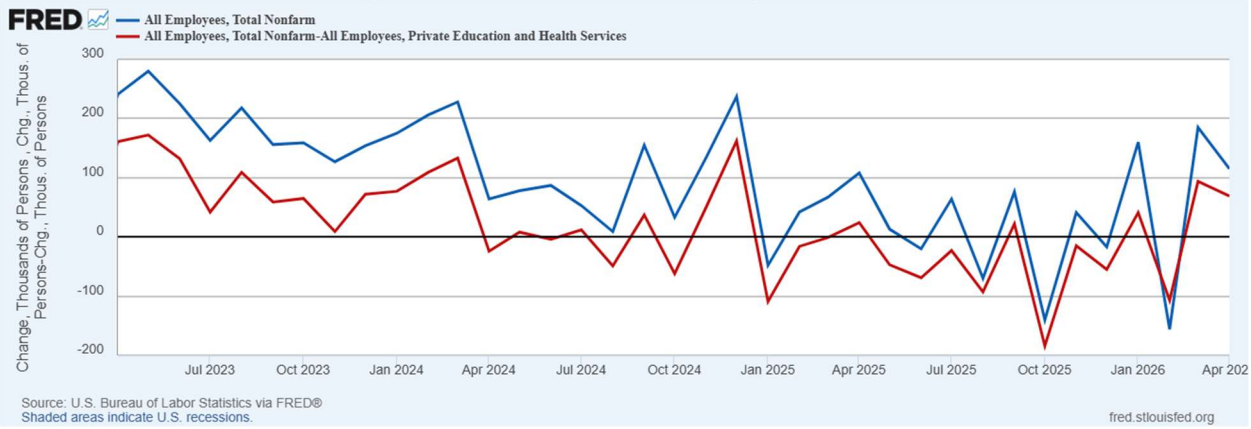
**The Strangest Labor Market Report in Years**

The BLS's employment reports are always two independent surveys, the larger establishment survey of firms and a smaller one of households. The April establishment survey is one of the most encouraging pieces of U.S. economic data in many months. The April household survey is, however, very poor.

Firms reported a 115,000 increase in employment in April (blue in Figure 1), a strong figure, even after accounting for downward revisions in prior months. **Far more importantly, however, hiring was strong outside of private education and healthcare (red),** two sectors that are recession-proof and which accounted for all job growth in 2025. Hiring outside of these sectors was 69,000, a very good reading that follows weak, but positive growth, in 1Q2026, after steady decline throughout 2025. This recovery is also in line with ADP's April figures that came out on Wednesday.

**Figure 1: Establishment Survey Job Gains**




The complication is that the household survey tells the exact opposite story. Households reported a decline of 226,000 jobs in April, the third straight month of decline (a larger decline in January is due to technical factor and is not cause for concern). **From February through Apil, the average decline in employment from the household survey is 158,000**. Furthermore, the labor force participation rate fell to 61.8%, its lowest since October 2021, and a spike in underemployment brought the U-6 unemployment rate, which counts underemployed workers,

up from 8.0% to 8.2%. The household survey is smaller than the firm survey, and it would be reasonable to dismiss a single poor month as an outlier. Three straight terrible months are, however, cause for concern and when this has happened in the past (*e.g.* mid-2025), the establishment survey subsequently weakened to bring the two datapoints into better alignment. **In other words, more major downward revisions to the firm survey are very likely.**

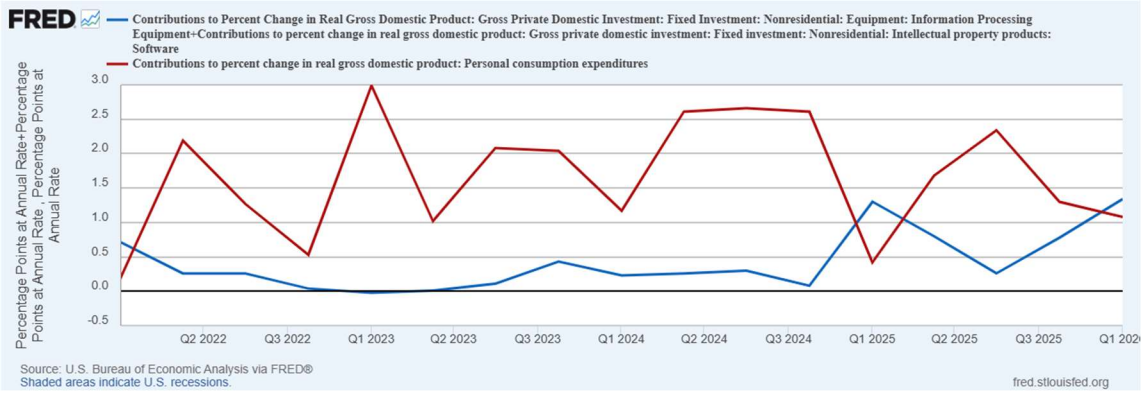
Despite the household survey's weakness, the establishment survey, along with other labor market data (which we discuss below), merits a significant upgrade to our outlook. **We are lowering our odds of a U.S. recession within the next year down to just 50%**. Hiring shows genuine signs of recovery. The household survey, along with ongoing headwinds from housing, policy uncertainty, and high rates make this recovery fragile, however, and it remains very possible that it proves to be short-lived.

**Other Developments in Macroeconomics:**

1. Just as the BLS report survey tells two competing stories, the April JOLTS data are also a mixed bag. The headline figure shows that job openings fell from 6.92 million to 6.87 million in April and is about as expected. More interestingly, the report showed both layoffs rising from 1.0% to 1.2%, their biggest jump since July 2024, and hirings rising from 3.1% to 3.5%, the biggest jump since June 2024. **The labor market has been stuck in a low hire/low-fire state for many months and JOLTS is showing signs of movement on both fronts**. Both remain low and we do not want to overreact to a single month of data. The increase in hiring is more important, however, than the increase in layoffs. Not only is the increase in hiring larger, but higher separations are not yet seen in other data such as jobless claims.

2. Another unusual data release was 1Q2026 GDP, which showed overall GDP growth of 2.0%, moderately better than expected. The source of this growth is unprecedented. Software and information processing equipment production (red in Figure 2) are two sectors which account for just 6.4% of the economy, but these drove two-thirds (1.34%) of GDP growth, a record high. Consumption (blue) grew at a decent 1.6% rate, adding 1.08% to GDP growth while housing was once again terrible. **The U.S. is in an AI-driven investment boom that sits atop an otherwise sluggish economy.** The implications are very good for equities. This type of growth will do nothing for the labor market in coming months, another reason for caution following this week's BLS report. Furthermore, strong investment growth may boost productivity over the next several years while being disinflationary. **Both effects will give the Fed license to resume rate cuts, which we expect to resume in October.**

**Figure 2: Contributions to GDP from Consumption (blue) and IT (red)**




3. While AI investment may boost productivity over the next several years, this week's 1Q2026 productivity reading is a reminder that its impact is yet to be felt. Labor productivity rose at a mediocre 0.8% annualized rate, its second consecutive sluggish quarter following exceptional growth between 2Q2025 and 3Q2025, when it averaged 4.6%. The San Francisco Fed's breakdown of productivity continues to suggest that technological factors, including AI, are not a major driver of recent productivity growth. Instead, most productivity growth has come from firms consolidating and streamlining their workforces.

-Paul Shea

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