ECONOMIC UPDATE

REGIONS

July 8, 2022

June Employment Report: Headline Beat, Details A Mixed Bag

- Nonfarm employment rose by 372,000 jobs in June; prior estimates for April and May were revised down by 74,000 jobs
- Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.6 percent (up 9.3 percent year-on-year)
- The unemployment rate remained at 3.6 percent in June (3.604 percent, unrounded); the broader U6 measure fell to 6.7 percent

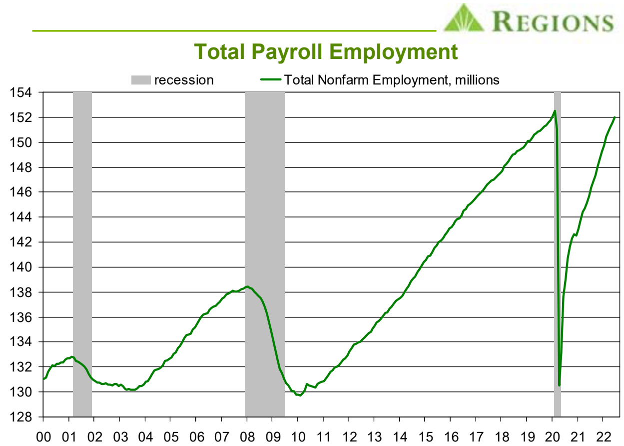
Total nonfarm employment rose by 372,000 jobs in June, easily ahead of what we and the consensus expected, with private sector payrolls up by 381,000 jobs and public sector payrolls down by 9,000 jobs. Prior estimates of job growth in April and May were revised down by a net 74,000 jobs for the two-month period, the third consecutive month in which the net revision for the prior two months was to the downside. Average hourly earnings rose by 0.3 percent, shy of our expectation of a 0.4 percent increase, but at the same time the prior estimate of May earnings growth was revised up by one-tenth of a point. As has been the case for some time now, job growth remained notably broad based in June, which should help allay concerns around the durability of the expansion. That said, there was a downward revision to the average length of the workweek in May, now reported to be 35.5 hours, and that held steady in June. That in turn has implications for growth in personal income. The unemployment rate held at 3.6 percent for a fourth straight month, while the broader U6 measure, which accounts for both unemployment and underemployment, fell to 6.7 percent from 7.1 percent in May on a sharp decline in the number of those working part-time for economic reasons. Still, labor force participation fell in June, with a decline in household employment keeping the jobless rate steady.

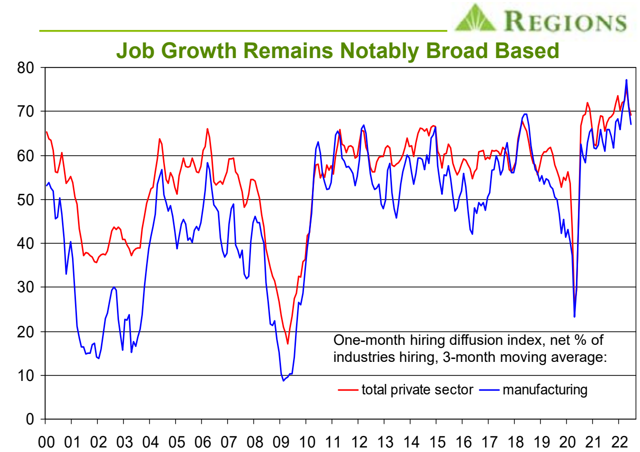
The response rate to the June establishment survey was 73.2 percent, the highest initial response rate since September. We've pointed to notably low response rates over the past several months as one source of noise in the initial estimates of monthly job growth, so the higher rate in June gives a bit more confidence in reported job growth. At the same time, the "follow-up" response rates for both April and May are well above the average rate, so in that sense the downward revisions to prior estimates of job growth in those months is a reflection of more complete survey data than a worrying sign of underlying trends in job growth. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, rose to 68.6 percent in June from 67.0 percent in May. Even though June job growth topped expectations, it is nonetheless well below the average pace of job growth over the prior twelve months, but that hiring remains so broad based suggests job growth simply slowing into a more sustainable pace. Were a slowing pace of job growth coming on top of a narrowing base of hiring across private sector industry groups, that would be a much more troubling sign.

As of June, the level of nonfarm employment was 524,000 jobs below the pre-pandemic peak, with a shortfall of 1.318 million jobs in leisure and hospitality services and a gap of 664,000 jobs in government, while payrolls in business services are 880,000 jobs above the pre-pandemic peak and payrolls in transportation and utilities are 753,000 jobs above. Still, job growth in the latter industry group has slowed, as has job growth in retail trade, with some degree of "right sizing" of head counts in these industry groups tied to shifting patterns in consumer spending. Job growth has also slowed in construction, which in part reflects a downshift in single family construction, but it is worth noting that builders have for years now been contending with labor shortages, so large-scale layoffs here seem unlikely even with a slower pace of single family construction.

The shorter average workweek over the past two months has been largely driven by manufacturing and leisure and hospitality services. In the case of the latter, this could simply reflect stepped-up hiring of late, as growth in not seasonally adjusted payrolls in April, May, and June was stronger than is typical for these months, even if that still leaves payrolls in this industry group well short of the pre-pandemic peak. As we often note, if a one-tenth of an hour change in the average length of the workweek does not seem like a big deal, that is equivalent to well over 300,000 jobs in terms of the economy's productive capacity, and these small changes have a profound impact on growth in aggregate labor earnings.

The decline in labor force participation is noteworthy, particularly as participation amongst the 25-to-54 year-old age cohort, the "prime working age" population, fell sharply, as did employment amongst this cohort. Given the inherently volatile nature of the household survey data, we won't make too much of these declines, especially given that on a payroll-equivalent basis, household employment rose in June. More broadly, however, participation remains well below pre-pandemic norms, which is one remaining blight on an otherwise strong labor market.





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