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## May Employment Report: Strong Headline Print, Questions Under The Hood

- › Nonfarm employment rose by 172,000 jobs in May; prior estimates for March and April were revised up by a net 93,000 jobs
- › Average hourly earnings rose by 0.3 percent, while aggregate private sector earnings rose by 0.4 percent (up 4.3 percent year-on-year)
- › The unemployment rate was unchanged at 4.3 percent in May (4.296 percent, unrounded); the broader U6 measure fell to 8.1 percent

Total nonfarm employment rose by 172,000 jobs in May, blowing away both our forecast (112,000 jobs) and the consensus forecast (85,000 jobs). Still, we'd stop short of characterizing the May employment report as a "blowout" report, as has been the most common characterization thus far. While we like a strong headline print as much as anyone, May's headline print was bolstered by public sector payrolls rising by 52,000 jobs, and the details here are somewhat, let's say, curious, as this increase was heavily concentrated within the local government sector outside of education. Private sector payrolls rose by 120,000 jobs in May, more in line with our forecast (103,000 jobs) but still well ahead of the consensus forecast (85,000 jobs). Prior estimates of job growth for March and April were revised higher by a net 93,000 jobs for the two-month period, with upward revisions to both private sector and public sector payrolls. The average length of the private sector workweek was unchanged at 34.3 hours, while average hourly earnings rose by 0.3 percent, and with the increase in payrolls aggregate private sector wage and salary earnings were up by 0.4 percent in May, leaving them up 4.3 percent year-on-year. While job growth was fairly broadly based across private sector industry groups, sizable gains in two areas – health care and leisure and hospitality services – accounted for the bulk of the increase in private sector payrolls. The unemployment rate held steady at 4.3 percent as the participation rate held at 61.8 percent. The broader U6 rate, which also accounts for underemployment, fell from 8.2 percent in April to 8.1 percent in May owing to a decline in the number of those working part-time for economic reasons. May marks the third straight month in which total nonfarm payrolls logged a six-figure increase, the first time in over two years with such a string. It was only a few months ago that many were writing the labor market's obituary, and if nothing else the string of upside beats has changed the narrative around the labor market for many, though not for us as we have all along had a more constructive take on labor market conditions while pointing to areas of concern in the data. For us, then, the May employment report doesn't really change anything.

As for the reported increase in local government payrolls, we noted in our preview of the May data that there could be seasonal adjustment noise in the education segment of local government. That was our first thought

when we saw the reported increase in payrolls, but as it turns out the increase came in local government excluding education, where the not seasonally adjusted data show an increase of over 100,000 jobs in May. We cannot come up with a plausible explanation for this, nor does BLS offer any explanation. For now, then, we'll simply treat this as a continuation of what has been a high degree of noise in public sector payrolls, with our focus remaining squarely on private sector payrolls.

That said, it isn't as though the data here are exactly clear cut. For instance, the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, edged up to 54.4 percent in May from an upwardly revised 54.0 percent in April. As we frequently note, however, the index measures the breadth of hiring not the intensity of hiring. That's a useful point to keep in mind when processing the May data, as health care (47,200 jobs) and leisure and hospitality services (70,000 jobs) account for almost the entire increase in private sector payrolls. Across other industry groups it is basically a mix between modest gains and modest declines, which doesn't exactly offer a great deal of clarity on the state of hiring.

It is also worth noting that aggregate private sector hours worked barely budged in May despite the increase in private sector payrolls. The main reason is compositional; with job gains heavily concentrated in leisure and hospitality services and health care, where weekly hours worked are well below the private sector average, this blunted the impact on total hours worked. In turn, the increase in aggregate private sector wage and salary earnings, the largest component of personal income, was blunted.

A tepid increase in the labor force was more than accounted for by the "prime working age" cohort, but this only barely offsets the cumulative decline reported over the three months prior for this cohort. May also saw a further decline in the size of the foreign born labor force, extending a trend in place since the start of last year which we've argued has been a material drag on job growth. One modest offset has been an upward drift in the number of people transitioning from being unemployed in one month to being employed in the next, "modest" being the obvious caveat here as the duration of unemployment continues to rise.

