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Comments on Current Economic Indicators – United States

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Jobs: +559K; 5.8% Unemployment Rate; Labor Market Undershoots – Again

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Nonfarm Payrolls rose 559K in May (DE 825K, Consensus 675K) following a revised 278K gain in April (originally 266K). **The Unemployment Rate** declined to 5.8% (DE 5.8%, Consensus 5.9%) from 6.1%.

The Labor Force Participation Rate went to 61.6% from 61.7% with a 53K decrease in the Labor Force. The Employment-Population Ratio rose to 58% from 57.9%.

Data – Leisure and Hospitality Grows Stronger than Other Industries

- **Total Private Payrolls** rose 492K after a 219K gain.
- Employment in the **Goods Sector** increased 3K following a 36K fall. Manufacturing saw a 23K expansion. Employment fell 20K for Construction. Mining and Logging was steady.
- **Private Services** Employment grew 489K following a 255K increase.
- **Leisure and Hospitality** Employment increased 292K following a 328K rise. Payrolls grew 186K for Food Services and Drinking Places and increased 35K for Accommodation.
- **Professional and Business Services** experienced a 35K increase after an 81K fall. Temporary Help rose 4K.
- **Transportation and Warehousing** showed a 23K gain from a 53K decline.
- Employment fell 6K for **Retail Trade** after a 30K drop.
- Payrolls rose 87K for Education and Health Services from a 25K gain.
- **Other Services** tallied a 10K gain following a 35K rise.
- **Government** Employment grew 67K after a 59K increase. Local and State experienced growth of 33K and 45K while Payrolls fell 11K at the Federal level.
- Average Weekly Hours (DE and Consensus 34.9) remained at the revised prior figure of 34.9 (originally 35). **Average Hourly Earnings increased 0.5% (DE 0.6%, Consensus 0.2%) and were up 2% YoY.**

Perspectives – A Mix of Forces Driving Labor Market

Nonfarm Payrolls rose notably less than expected in May. Additionally, the April gain – which was drastically below expectations – was only revised up a trivial amount.

This tells us that April's figure was not a total aberration. While the Labor Market accelerated in May, there is now a slight trend of Payrolls falling short of expectations.

There are many factors at play. **Firms in some industries likely adjusted to having smaller workforces. They are only slowly hiring because smaller Payrolls can support Earnings.**

There is also plenty of anecdotal evidence of Labor shortages in areas where demand from Reopenings is far outpacing reentry to the Labor Force. This supports the strong growth in Average Hourly Earnings, as some firms are offering higher wages to attract talent.

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Total Nonfarm Payrolls were down 5% compared to February 2020. Similarly, Leisure and Hospitality was down 15% and Employment for Food Services and Drinking Places was down 12%. This slack should prevent wage costs from getting way out of hand, but expect some transitory high growth.

DE expected a considerable rise in the Labor Force, but instead, it contracted and pulled the Unemployment Rate down. Some people may be discouraged workers if firms in their preferred field are only slowly hiring. Others may not be facing pressure to reenter, given substantial the stimulus checks.

Employment is still far from the Fed's target, so policy is slated to stay accommodative. That said, the Fed could start "thinking about thinking about" tightening over the next few months.