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US Non-farm payrolls: More reasons to wait and see

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Employment change (thousands, unless otherwise noted)	May 24	Apr 24	Mar 24	Feb 24	Jan 24
Unemployment rate (%)	4.0	3.9	3.8	3.9	3.7
Avg. hrly earn all (Monthly % Chg)	0.4%	0.2%	0.4%	0.1%	0.5%
Avg. wkly hour all (Monthly % Chg)	0.4%	-0.1%	0.7%	0.4%	-0.1%
Nonfarm employment	272	165	310	236	256
Total private	229	158	232	181	196
Goods-producing	25	0	33	15	30
Construction	21	0	37	24	26
Manufacturing	8	6	-6	-9	6
Priv. Serv providing	204	158	199	166	166
Wholesale trade	3.1	1.4	10	-4	-7
Retail trade	12.6	22.6	19	23	17
Transp. & Warehousing	10.6	19.5	5	31	-4
Information	0	-5	2	-3	8
Financial	10	-2	4	-7	-4
Business services	33	-1	17	6	48
Temporary help	-14.1	-12.3	-1	-16	8
Education, health	86	106	76	80	100
Leisure, hospitality	42	12	54	26	-3
Government	43	7	78	55	60
Federal Government	4	2	12	7	13

Source: Haver Analytics

- The US jobs gains heated up in May, with payroll job gains coming well above expectations. Employment rose by 272K, compared to consensus expectations of a 180K increase and the 165K gain in the month prior. Over the previous two months, there were -15K net revisions. However, the unemployment rate rose one notch to 4.0%, above consensus views of 3.9%, and the part rate dipped two notches by 62.5%. Wage growth accelerated to 0.4% m/m, above consensus expectations for 0.3%. A lot of moving parts and mixed signals on the surface of today's labor market data, with payrolls showing the labor market heating up a bit and the household survey showing further cooling. We have tended to favor payrolls data given it better captures the immigration surge. But what this means is the Fed is likely to wait to see more data to get a better read on the state of the labor market, and continue to place more weight on inflation data to assess the overall balance of supply and demand in the economy. So overall, whether this is a temporary pop or not, it leans towards a more hawkish Fed.

- Taking a few steps back, the trend in job payroll growth through now what is almost the first half of 2024 is modestly stronger than the back half of 2023. On a three-month average basis, payroll gains were about 250K in May compared about 210K in December. Underneath the hood, the pickup in hiring reflects an increase in cyclically sensitive sectors, which is total employment excluding government, healthcare and education. In today's release we saw cyclically sectors account for 53% of job gains in the month with professional and business services, leisure and hospitality and construction leading the way. Government hiring also bounced back with over 40K jobs added, but this is below 60K averaged since Jan 2023.
- Wage growth rose by two notches to 0.4% m/m compared to 0.2% in April and average hours worked per week stayed unchanged at 34.3. Our proxy for labor income in the month (total hours worked times wages) grew by 0.6% m/m in May or stands at a health 4.5% on a three-month annualized basis, suggesting consumers are not feeling stretched by any means in May and are enjoying a healthy nominal income gains. That makes life for the Fed complicated, especially because consumers have been persistently spending more out of their income than they were prior to the pandemic, with the saving rate sitting in the mid-3% range.
- But we saw a very different message from the volatile household survey. Employment contracted by 408K in that survey and on a three-month average basis stood at +38K. The unemployment rate ticked up to 4.0% due to both an increase in the number of unemployed and a decline in participation rate. But even if we were to assume the labor force was unchanged from the month prior, the rise in the number of unemployed would have been enough to push us up one notch. The Fed will be a bit concerned by this signal, as the unemployment rate has hit 4% for the first time since November 2021, and raises the possibility that, on some dimensions, there might not be much excess demand left in the labor market.
- It has been a big week for the US labor market. Earlier this week, the JOLTS data showed that the dynamism in the labor market continues to fizzle out, with workers no longer job-hopping and firms less on the lookout for new workers in April. And now the payroll and household surveys are giving conflicting signals about May. The Fed likely places the greatest weight on the payroll survey, because it feeds into national accounts and other important source data, and is generally more reliable real-time indicator. But they also will not dismiss weakness in JOLTS and the household survey. JOLTS provides the best real-time gauge of overall slack in the labor market in their current framework, as reinforced by influential recent research (See Benigno and Eggertsson, 2023). Given these conflicting signals, if we were them, we would likely just wait to see more data. The path to a September rate cut is by no means closed, just somewhat narrower after today.

Implications & actions

Re: Economic forecast — The US labor market strengthened and labor income rose in May, which will likely cause the Fed to wait some more. Today's data puts some pressure on our September call, but there is still a lot of important data between now and then and inflation dynamics will have more weight than other information, including the labor market.

Re: Markets — Bond yields rose and the broad dollar strengthened on the upside surprise in payrolls.