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Economics

# ECONOMIC FLASH!

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## US Employment gain buttresses case for a Fed hike by July

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| Employment change (thousands, unless otherwise noted) | May 23 | Apr 23 | Mar 23 | Feb 23 | Jan 23 |
|---|---|---|---|---|---|
| Unemployment rate (%) | 3.7 | 3.4 | 3.5 | 3.6 | 3.4 |
| Avg. hrly earn all (Monthly % Chg) | 0.3% | 0.4% | 0.3% | 0.3% | 0.3% |
| Avg. wkly hour all (Monthly % Chg) | 0.0% | 0.4% | 0.0% | 0.0% | 0.9% |
| Nonfarm employment | 339 | 294 | 217 | 248 | 472 |
| Total private | 283 | 253 | 157 | 193 | 353 |
| Goods-producing | 26 | 28 | -19 | 18 | 41 |
| Construction | 25 | 13 | -9 | 14 | 26 |
| Manufacturing | -2 | 10 | -12 | 3 | 11 |
| Priv. Serv providing | 257 | 225 | 176 | 175 | 312 |
| Wholesale trade | 1 | 2 | 4 | 7 | 9 |
| Retail trade | 12 | 10 | -19 | 48 | 22 |
| Transp. & Warehousing | 24 | 4 | 16 | -18 | 32 |
| Information | -9 | 1 | 3 | -8 | -23 |
| Financial | 10 | 25 | -5 | 0 | -1 |
| Business services | 64 | 65 | 45 | 21 | 44 |
| Temporary help | 8 | -7 | -3 | -10 | 17 |
| Education, health | 97 | 85 | 70 | 64 | 111 |
| Leisure, hospitality | 48 | 30 | 46 | 57 | 99 |
| Government | 56 | 41 | 60 | 55 | 119 |
| Federal Government | 7 | 5 | 11 | 9 | 12 |

Source: Haver Analytics

- Hiring roared ahead in the US in May, as 339K jobs were created, well above the 195K consensus expectation, and a +93K revision to the prior two-month job tally added to the upside surprise. The hiring was relatively broad based, but that contrasted with a 310K drop in jobs that was reported by the household survey, which resulted in the unemployment rate rising by three ticks to 3.7% (vs. 3.5% expected). Wage growth decelerated to 0.3% m/m as expected, with the prior month revised down by a tick to 0.4%, and private aggregate hours worked dropped off by 0.1% m/m, showing that there are some cracks beneath the surface of the labor market. That could be enough to let the Fed opt for a wait-and-see stance in June, but on balance, the data suggests that there's enough momentum for the Fed to then finetune rates a further quarter point higher in July.
- The annual pace of wage growth has edged lower, but at but 4.3%, is still too hot to be consistent with 2% inflation. Looking at the detail of the wage data showed a deceleration in supervisory wages offset an acceleration in wages for non-supervisory workers. Indeed, labor shortages in key service sectors are still supporting pay rates, as in the leisure

and hospitality sector, wages for non-supervisory workers accelerated to 0.7%. The slowdown in goods sectors of the economy was apparent in the slowdown in transportation and warehousing wages, but pay rates gained momentum in construction and manufacturing for production workers. The 48K job gain in leisure and hospitality along with the increase in hours worked for production workers in that sector also suggests that demand in discretionary services remains resilient.

- There was some evidence of the mass tech layoffs that have captured media headlines, with employment in the information sector decreasing by 9K. However, interest-sensitive sectors showed mixed results, as construction payrolls increased, while manufacturing decreased. Extending recent strength, the private education and health care industry was the largest contributor to employment growth, and hiring in that sector could continue to be supported by investment from state and local governments that are flush with cash.
- The household survey, which is more volatile and less reliable on a month-to-month basis, showed a 310K drop in jobs, in stark contrast to the payrolls survey. However, year-to-date, the comparable measure of the household survey to payrolls shows 1.9mn jobs added vs. 1.6mn for payrolls, suggesting that the May print could be correcting for an earlier over-reporting of strength. The total participation rate was unchanged, and the prime-age (25-54 years) participation rate rose further above its pre-pandemic peak, which could continue, as more Americans are dealing with diminished savings and prior inflation could encourage those people to seek labor income.
- Private aggregate hours worked declined by 0.1%, and has been slipping in the last three months overall. That takes a bit of a shine off the payrolls report in terms of its likely implications for the pace of private sector GDP.

## Implications & actions

**Re: Economic forecast** — The upside surprise in hiring was in line with increase in job openings seen leading up to the reference period of this survey. Although there was some weakness beneath the surface of the report, the tone of recent data suggests that the US was still on pace for something close to 2% growth in Q2, yet another quarter in which we've put off the necessary pain to get inflation down all the way to 2%. The ambiguity in today's data should be sufficient to have the Fed opt to keep rates on hold in June, but we now see them nudging rates up a final time in July. We're near the end of a long rate hike cycle, so each hike is now a separate decision that will rest on the incoming data, and a Q3 slowdown is necessary to still make July an isolated final move rather than part of a sequence.

**Re: Markets** — Bond yields increased and the USD strengthened following the release, as markets added weight to the odds for a hike by July.