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Strong US hiring extends support for aggressive Fed action

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Employment change (thousands, unless otherwise noted)	Jun 22	May 22	Apr 22	Mar 22	Feb 22
Unemployment rate (%)	3.6	3.6	3.6	3.6	3.8
Avg. hrly earn all (Monthly % Chg)	0.3%	0.4%	0.3%	0.5%	0.1%
Avg. wkly hour all (Monthly % Chg)	0.3%	0.1%	0.3%	0.2%	0.4%
Nonfarm employment	372	384	368	398	714
Total private	381	336	368	385	704
Goods-producing	48	58	64	85	114
Construction	13	34	-5	22	54
Manufacturing	29	18	61	58	50
Priv. Serv providing	333	278	304	300	590
Wholesale trade	16	15	28	26	27
Retail trade	15	-44	0	-23	111
Transp. & Warehousing	36	59	49	4	74
Information	25	26	21	18	0
Financial	1	14	31	11	29
Business services	74	69	40	94	87
Temporary help	5	11	-11	8	28
Education, health	96	57	62	51	101
Leisure, hospitality	67	68	59	104	124
Government	-9	48	0	13	10
Federal Government	-13	-1	-9	-2	-1

Source: Haver Analytics

- The US labor market remained too hot for the Fed's comfort in the US in June, as the 372K jobs created easily exceeded expectations, even when accounting for a -74K revision to the prior two-month job tally. The less reliable household survey showed a loss of jobs, but when combined with a drop in the participation rate, the unemployment rate remained at a low 3.6%, as expected. The pace of wage growth decelerated to 0.3%, and continues to trail price growth, eroding consumer purchasing power. Still, the continued strong hiring trend supports a likely 75bp hike by the Fed later this month.
- Hiring was tilted towards private services, with business, education, health, and leisure and hospitality leading the way. Job growth in interest-sensitive sectors floundered, as real estate payrolls were roughly flat while hiring in construction decelerated. Total payrolls remain 524K below pre-pandemic levels, with the leisure and hospitality sector more than accounting for that, as it stands at a 1.3mn shortfall.

- The participation rate dropped by a tick, to 62.2%, and remains below its pre-pandemic level of 63.4%. That difference partially reflects an acceleration in retirements over the pandemic, but the prime-age (25-54 years old) employment-to-population ratio is still 0.7%-pts below its February 2020 level. It's likely that as purchasing power erodes further and excess savings are drawn down, participation in the prime-age group will rise. The drop in participation in June was related to the spread of Omicron subvariants, as the number of persons unable to look for work due to the pandemic rose by 155K.
- The household survey showed a loss of 315K jobs, and the details of the survey suggest that the spread of Omicron subvariants weighed, as there was an increase of 300K workers reporting that they were unable to work in June due to the pandemic. When combined with the drop in participation, the unemployment rate remained at a tight 3.6%. Moreover, the broader U-6 unemployment rate that accounts for those working part-time for economic reasons and those that are marginally attached to the workforce fell by four ticks to 6.7%, bringing it a hair below its pre-pandemic low.
- Aggregate hours worked bounced back in June to leave the annualized pace over the quarter at 2.7%, down from 3.6% in Q1. A slowdown in the interest-sensitive construction sector weighed, as did the manufacturing sector, as growth sentiment has soured lately. Given that goods-producing sectors are higher value-added than services, GDP growth could again be well below the climb in hours worked.

Implications & actions

Re: Economic forecast — The Fed needs to prevent a further tightening in the labor market in order to contain inflation ahead, and another 75bp hike at the July FOMC will likely be the next step on that path. But with activity in interest-sensitive areas already flagging, and the erosion in purchasing power acting as a dampening force on future inflation, the Fed is likely to opt for smaller hikes thereafter.

Re: Markets — The upside surprise caused bond yields to move up as it increases the odds of an outsized Fed hike in July.

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