ECONOMICS
http://economics.cibccm.com

Economic Flash!

July 6, 2018

Katherine Judge (416) 956-6527

Strong US Jobs Print Caps Q2, But Wages Miss the Mark

Following is a summary of the June employment situation from the Labor Department

	Jun	May	Apr	Mar	Feb	Jan	3MAvg
Unemployment rate	4.0%	3.8%	3.9%	4.1%	4.1%	4.1%	3.9%
Rate (3 decimals)	4.048%	3.755%	3.929%	4.071%	4.142%	4.149%	n/a
Avg. hrly earn all	0.2%	0.3%	0.2%	0.2%	0.1%	0.3%	0.2%
Avg. wkly hour all	34.5	34.5	34.5	34.5	34.5	34.4	34.5
Nonfarm employment	213	244	175	155	324	176	211
Total private	202	239	174	153	321	188	205
Goods-producing	53	51	52	26	107	55	52
Construction	13	29	16	-3	67	28	19
Manufacturing	36	19	28	21	31	20	28
Priv. Service providing	149	188	122	127	214	133	153
Trade, transport	-4	47	-9	41	68	34	11
Retail trade	-22	25	-2	11	46	12	0
Information	0	0	3	6	-1	-16	1
Financial	8	17	3	5	29	3	9
Business services	50	43	59	41	61	38	51
Temporary help	9	-5	18	-3	22	-2	7
Education, health	54	40	38	29	32	50	44
Leisure, hospitality	25	28	14	2	18	21	22
Government	11	5	1	2	3	-12	6
Federal Government	-2	-1	1	-1	-5	2	-1

Source: Bloomberg

- American employers continued hiring at an above-trend pace in June but weren't doling out significantly higher wages in order to attract new workers. While the strong job creation print will help eat away remaining labor market slack, this report confirms that the inflation outlook is still reasonably contained, with the move higher in participation indicating the labor market has more slack to chew through.

- The 213K jobs created in June beat the consensus view (195K), and the +37K revision to the prior two months suggests that the US economy is on solid footing. That's consistent with the pickup seen in other growth indicators for Q2. Adding to the good news, gains were fairly broad-based with manufacturing (+36K) hiring picking up to the fastest pace this year. At the same time, however, construction hiring (+13K) continued to see job gains dampened by a scarce supply of labor. The only service sub-industry to shed positions was retail trade (-22K) and that could reflect the slowdown in spending seen in May as well as online competition.

- Encouragingly, the participation rate ticked up from 62.7% to 62.9%, something that should help relieve labor shortages while allowing growth to move ahead without stoking significant inflationary pressures. While that did lead the unemployment rate two ticks higher to 4.0%, that will give employers more room to continue robust hiring in the coming months.

- It wasn’t significantly higher wages drawing workers back into the labor force, however, as wages rose by a middling 0.2% on the month, leaving the annual rate unchanged at 2.7%. That’s only slightly above the range seen since 2016 and well below the 3-4% range that the Fed would like to see. Structural forces including an aging workforce are a material headwind to wage progression.

- Aggregate hours worked increased 0.2%, but the 3-month average annualized pace fell to 2.3%, extending the deceleration seen in the prior two months. That still indicates a solid pace of expansion in the second quarter in combination with employment gains that are roughly aligned with Q1.

Implications & Actions

Re: Economic Forecast—Another above-trend hiring print in June caps a very strong quarter for the US economy. Indeed, this supports our view of above-4% growth in Q2, and suggests that consumers will remain a vital driver of growth into Q3. While wage growth disappointed, the increase in participation is a welcome development and indicates that there is no imminent threat to the inflation outlook as full employment has not yet been achieved. That is consistent with the Fed’s gradual interest rate tightening path.

Re: Market—The disappointing wage print led the USD lower but bond yields didn’t see a sustained move.