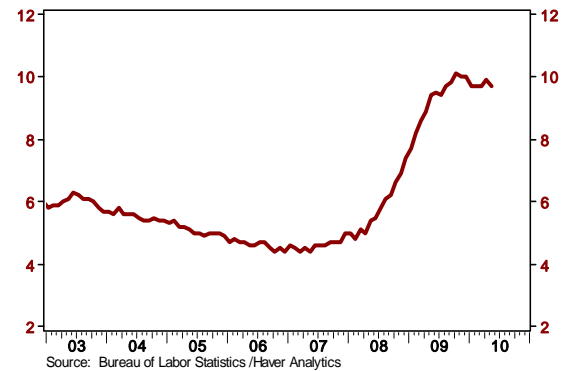


MAY EMPLOYMENT REPORT

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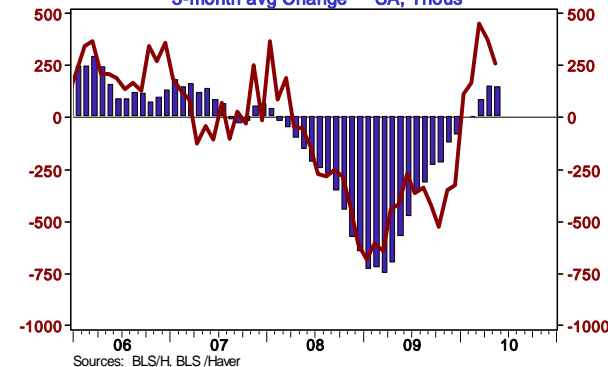
- Non-farm payrolls increased 431,000 in May. Revisions to March/April subtracted 22,000, bringing the net payroll gain in May to 409,000. The consensus had expected an increase of 536,000.
- Census-related hiring added 410,000 to payrolls. Most private-sector industries added to payrolls, led by temps (+31,000), manufacturing (+29,000), and education/health (+17,000). The weakest categories were construction (-35,000), financial activities (-12,000), and retail (-7,000).
- The unemployment rate dropped to 9.7% in May (9.698% unrounded) from 9.9% in March (9.863% unrounded).
- Average weekly earnings were up 0.6% in May and are up at a 5.3% annual rate in the past three months.

Civilian Unemployment Rate: 16 yr +
SA, %



Implications: The headline payroll number for May came in below consensus expectations and the shortfall was due to the private sector. However, the details of the report – beside the welcome drop in the unemployment rate to 9.7% -- confirm the V-shaped recovery is now hitting the labor market. Average weekly hours in the private sector increased to 34.2 in May from 34.1 in April. That’s the equivalent of 315,000 jobs. In other words, had employers kept hours per worker unchanged, there was enough labor demand for private payrolls to increase 356,000 in May (the actual gain of 41,000 plus 315,000). That would have blown away the consensus expected gain of 180,000 for the private sector. Given the massive health care entitlement enacted a few months ago, some companies may be taking rising demand for labor and translating it into more hours for the workforce they already have rather than new employees, who come with higher fixed health care costs. If so, this is going to be painful for unemployed workers who want a job. Note that the median duration of unemployment increased to 23.2 weeks in May, the highest on record (although this is also due to almost two full years of unemployment benefits and technological change). However, the shift from hiring to boosting hours need not depress economic growth. In the past three months, average weekly earnings are up at a 5.3% annual rate, which is more than enough for workers as a whole to continue to increase their consumption. Moreover, we think private payrolls will soon start picking up again, despite the structural shift toward more hours per worker. Civilian employment – an alternative measure of jobs that includes the self-employed and new start-up businesses – is up 1.9 million so far this year, far outstripping the 1.0 million in payrolls over the same period. Civilian employment is often a more timely indicator at turning points in the labor market like we’re in right now.

Civilian Employment: Population-Adjusted
3-month avg Change SA, Thous



Employment Report <i>All Data Seasonally Adjusted</i>	May-10	Apr-10	Mar-10	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	9.7	9.9	9.7	9.8	9.8	9.8
Civilian Employment (monthly change in thousands)	-35	550	264	260	214	-65
Nonfarm Payrolls (monthly change in thousands)	431	290	208	310	146	-49
Construction	-35	14	27	2	-24	-44
Manufacturing	29	40	19	29	18	-21
Retail Trade	-7	19	23	12	13	-10
Finance, Insurance and Real Estate	-12	2	-19	-10	-11	-15
Professional and Business Services	22	73	1	32	33	7
Education and Health Services	17	28	49	31	30	30
Leisure and Hospitality	2	35	23	20	10	-3
Government	390	72	50	171	77	28
Avg. Hourly Earnings: Total Private*	0.3%	0.1%	0.0%	1.6%	1.6%	1.9%
Avg. Weekly Hours: Total Private	34.2	34.1	34.0	34.1	34.0	33.9
Index of Aggregate Weekly Hours: Total Private*	0.3%	0.4%	0.4%	4.9%	2.4%	0.0%

*3, 6 and 12 month figures are % change annualized