

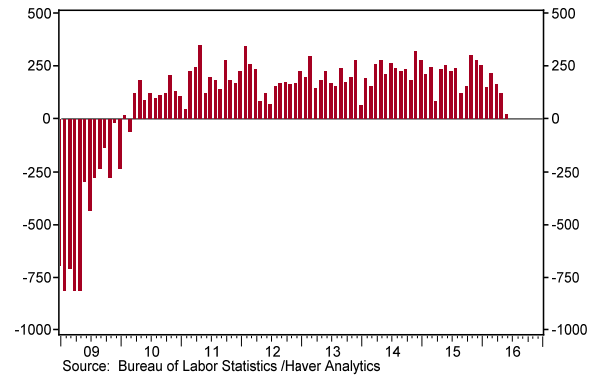
May Employment Report

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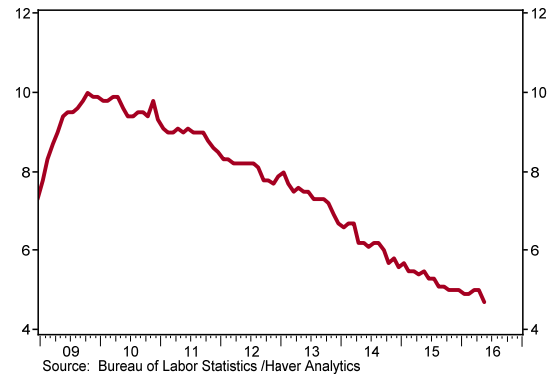
- Nonfarm payrolls increased 38,000 in May, missing the consensus expected 160,000. Including revisions to March/April, payrolls declined 21,000.
- Private sector payrolls increased 25,000 in May, although revisions to prior months subtracted 58,000. The largest gains in May were for education & health care (+67,000), restaurants & bars (+22,000), and retail (+11,000). Manufacturing payrolls fell 10,000 while government rose 13,000.
- The unemployment rate fell to 4.7% in May from 5.0% in April.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.2% in May and are up 2.5% versus a year ago.

Implications: If the only numbers in today’s employment report were the jobless rate falling to 4.7% and hourly wages rising at a 3.2% annual rate in the past three months, you’d think it was good news. But that would be missing key data signaling a potential downshift in the trend pace of job creation. Nonfarm payrolls grew only 38,000 in May, well below consensus expectations, and were revised down for prior months. If these figures aren’t revised again, April/May would be the slowest two-month period for job growth in more than five years. Meanwhile, civilian employment, an alternative measure of jobs that includes small-business start-ups, rose only 26,000 in May. Even factoring in the Verizon strike and some negative effect from weather, job creation was still relatively weak. In addition, the labor force fell 458,000 in May, resulting in a decline in the participation rate back down to 62.6%. That’s why the unemployment rate fell in spite of soft job creation. However, investors should be careful not to draw huge conclusions based on today’s report. Job creation is sometimes substantially revised, like for August 2011, originally reported as zero net payroll growth and since revised to up 107,000. As we said last month, don’t panic. The trends over the past year remain solid, including payroll gains of 200,000 per month and civilian employment gains of 190,000 per month. The labor force is still up 1.1 million in the past year. The best news in today’s report was the continued gains in workers’ earnings, even as many highly-skilled and highly-paid Baby Boomers retire. Total wages, which reflect gains in both average hourly earnings (excluding fringe benefits and irregular bonuses/commissions) and the number of hours worked, were up 0.3% in May and are up 4.2% versus a year ago, more than enough to keep pushing consumer spending upward. Today’s report makes it much less likely the Fed will raise rates in June, but we think the Fed will still raise by July and raise rates twice in 2016. Regardless of the reason – whether from fast job creation or a smaller labor force – an unemployment rate of 4.7% signals labor market “tightness,” which means companies have to bid up wages at an accelerating trend to find the workers they want to hire. That fits the data over the past year. Note that a tight labor market is not necessarily a “strong” or “good” labor market. For example, if the government pays more people not to work, job creation will slow and the labor force will shrink even as it gets harder for companies to find workers. Cutting tax rates would create the opposite effect, with a larger labor force, more job creation, ...but a looser labor market.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	May-16	Apr-16	Mar-16	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.7	5.0	5.0	4.9	4.9	5.0
Civilian Employment (monthly change in thousands)	26	-316	246	-15	264	190
Nonfarm Payrolls (monthly change in thousands)	38	123	186	116	170	200
Construction	-15	-5	37	6	16	18
Manufacturing	-10	2	-29	-12	-5	-3
Retail Trade	11	-5	42	16	29	27
Finance, Insurance and Real Estate	8	18	14	13	12	13
Professional and Business Services	10	55	31	32	32	44
Education and Health Services	67	46	46	53	54	57
Leisure and Hospitality	11	11	18	13	24	33
Government	13	-7	19	8	10	8
Avg. Hourly Earnings: Total Private*	0.2%	0.4%	0.2%	3.2%	2.5%	2.5%
Avg. Weekly Hours: Total Private	34.4	34.4	34.4	34.4	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	0.1%	0.1%	0.1%	1.1%	1.2%	1.6%

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