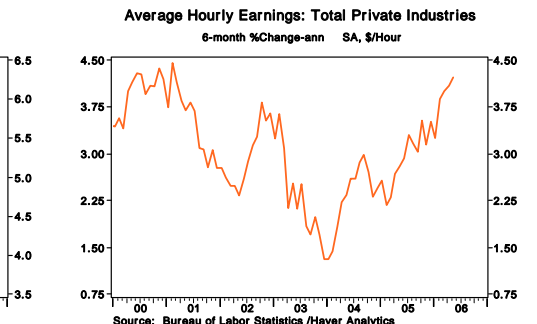
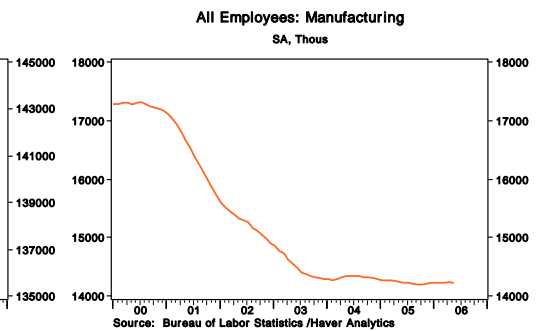
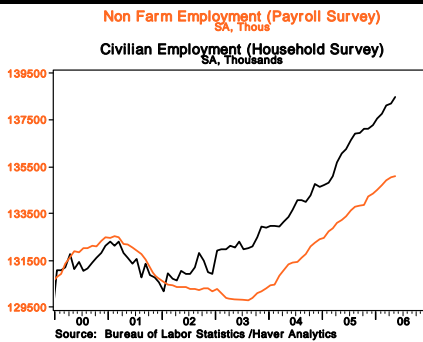


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MAY EMPLOYMENT REPORT

- Non-farm payrolls increased by 75,000 jobs in May, less than the consensus expectations of 170,000. Payrolls were revised down by a total of 37,000 in March and April. Payrolls have added 1.9 million jobs in the past year.
- The household survey reported that employment increased by 288,000 last month, while the labor force increased by 180,000. As a result, the unemployment rate fell to a 58-month low of 4.6%
- Average hourly earnings increased just 0.1% in May but were upwardly revised to show a 0.6% increase in April. Average hourly earnings have gained 3.7% in the past year.

Implications: Non-farm payrolls were weak in May, adding just 75,000 jobs, the smallest non-Katrina monthly gain since July 2004. A 14,000 decline in manufacturing employment and a 27,000 drop in retail trade employment dragged down the headline number. The index of aggregate weekly hours (hours worked x employment) fell 0.2% in May and average hourly earnings increased just 0.1%. At face value, these data suggest that the Fed would be wise to pause. However, we caution drawing too strong of a conclusion from just one-month's worth of data. Non-farm payrolls have added 875,000 jobs in the past six months and 1.9 million in the past year. While average hourly earnings were weak in May, they rose 0.6% in April and are up an annualized 4.2% in the past six months – well above the six month annualized change in the CPI of 1.9%. Moreover, the household survey of employment was strong last month. This data, because it comes from a survey of workers and not establishments, is a more accurate reflection of the labor market. Household employment rose by 288,000 jobs in May and has added 2.4 million jobs in the past year. The unemployment rate fell to a post-recession low of 4.6%. In the past 36 years, the unemployment rate has been lower than the current rate for just 38 months. In fact, there are many anecdotal reports of labor shortages in the US. These mixed signals only add to the uncertainty surrounding the Fed's next move. While the conventional wisdom is now predicting a Fed pause, it only takes one piece of data or one comment by a Fed member to change this view.



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Employment Report	May-06	Apr-06	Mar-06	3-month moving avg	6-month moving avg	12-month moving avg
Nonfarm Payrolls (monthly change in thousands)	75	126	175	125	146	158
<i>Goods-Producing Industries</i>						
Mining	-10	45	8	14	25	24
Construction	4	10	7	7	5	5
Manufacturing	1	16	1	6	17	21
Service-Producing Industries	-14	19	-1	1	3	-2
Retail Trade	85	81	167	111	121	134
Finance, Insurance and Real Estate	-27	-44	17	-18	-9	-1
Government	12	28	14	18	18	18
Government	8	9	23	13	6	12
Avg. Hourly Earnings: Priv. Nonfarm Payrolls*	0.1%	0.6%	0.2%	3.7%	4.2%	3.7%
Avg. Weekly Hours: Priv. Non-agric	33.8	33.9	33.8	33.8	33.8	33.8
Avg. Weekly Hours: Manufacturing	41.1	41.2	41.1	41.1	41.0	40.8
Index of Aggregate Weekly Hours*	-0.2%	0.4%	0.2%	1.5%	2.1%	2.3%
Unemployment Rate	4.6	4.7	4.7	4.7	4.7	4.9
Labor Force	180	159	203	181	135	149
Civilian Employment	288	47	384	240	228	200

Source: Bureau of Labor Statistics

*3, 6 month figures are % change annualized; 12 mo. = year over year % change

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