

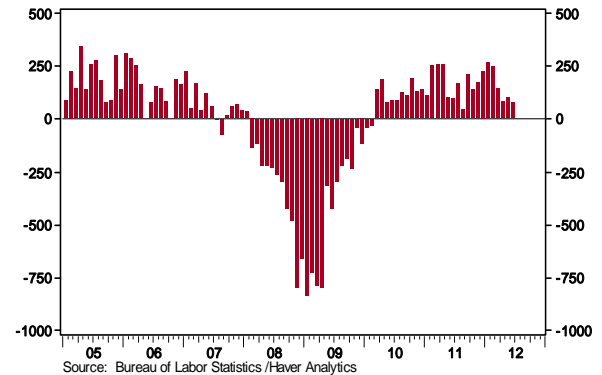
June Employment Report

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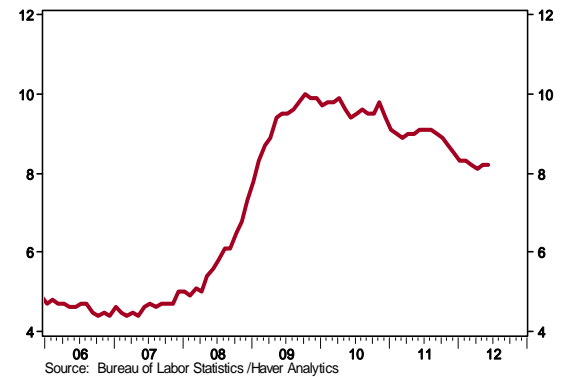
- Non-farm payrolls increased 80,000 in June (79,000 with a tiny downward revision to April/May). The consensus expected a gain of 100,000.
- Private sector payrolls increased 84,000 in June. Revisions to April/May added 21,000, bringing the net gain to 105,000. June gains were led by temps (+25,000), bars/restaurants (+15,000), health care (+13,000), and manufacturing (+11,000). The weakest sector was education (-10,000).
- The unemployment rate remained unchanged at 8.2%.
- Average weekly earnings – cash earnings, excluding benefits – were up 0.3% in June and up 2.0% versus a year ago.

Implications: The plowhorse economy keeps moving forward, but seems to have hit some clay. Improvement in the labor market remained tepid in June, suggesting the slowdown in job creation in the past few months may be more than just a hangover from an unusually mild winter, when job creation averaged 250,000 per month. Payrolls have expanded only 75,000 per month the past three months, 91,000 in the private sector. One possibility is that some firms have been waiting for the Supreme Court ruling on health care, which could have given them clarity on the cost of hiring. However, with the Court letting the law stand, these firms now have to wait for the election, which means this headwind will remain in place. However, much of the data in today's report was better than the headline payroll number. Civilian employment, an alternative measure of jobs that includes small business start-ups, grew 128,000 in June and is up an average of 235,000 in the past year. This easily beats the average of 148,000 for nonfarm payrolls. Traditionally, when civilian employment grows faster than payrolls, payrolls tend to accelerate. Also, total hours worked hit a new high for the recovery and are up 2.1% versus a year ago. Combined with gains in average hourly earnings, total cash earnings (which do not include fringe benefits) are up 4.1% from a year ago. With consumer prices up only about 1.5% from a year ago, these wage gains mean workers have growing purchasing power. The unemployment rate stayed at 8.2% in June, with the labor force growing 156,000. In the past year, the labor force is up 1.5 million, while the unemployment rate has dropped 0.9 percentage points. The U-6 unemployment rate, which includes discouraged workers and part-time workers who say they want to work full-time, ticked up to 14.9% in June. Usually the U-6 unemployment rate is about 75% higher than the official unemployment rate. Right now it's 82% higher, which is still within the normal historical range. The bottom line is that there is plenty of information in today's report to support anything from mild pessimism to mild optimism. Given loose monetary policy and a recovering – and labor intensive – housing industry, we think payroll growth will pick up in the second half of the year.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



| Employment Report <i>All Data Seasonally Adjusted</i> | Jun-12 | May-12 | Apr-12 | 3-month moving avg | 6-month moving avg | 12-month moving avg |
|---|---------------|---------------|---------------|---------------------------|---------------------------|----------------------------|
| Unemployment Rate | 8.2 | 8.2 | 8.1 | 8.2 | 8.2 | 8.6 |
| Civilian Employment (monthly change in thousands) | 128 | 422 | -169 | 127 | 235 | 235 |
| Nonfarm Payrolls (monthly change in thousands) | 80 | 77 | 68 | 75 | 150 | 148 |
| Construction | 2 | -35 | -7 | -13 | -6 | 1 |
| Manufacturing | 11 | 9 | 10 | 10 | 26 | 19 |
| Retail Trade | -5 | 2 | 24 | 7 | 3 | 9 |
| Finance, Insurance and Real Estate | 5 | 9 | 6 | 7 | 7 | 5 |
| Professional and Business Services | 47 | 24 | 45 | 39 | 50 | 49 |
| Education and Health Services | 2 | 44 | 15 | 20 | 36 | 37 |
| Leisure and Hospitality | 13 | -7 | -4 | 1 | 22 | 23 |
| Government | -4 | -28 | -17 | -16 | -8 | -14 |
| Avg. Hourly Earnings: Total Private* | 0.3% | 0.2% | 0.1% | 2.2% | 2.2% | 2.0% |
| Avg. Weekly Hours: Total Private | 34.5 | 34.4 | 34.5 | 34.5 | 34.5 | 34.5 |
| Index of Aggregate Weekly Hours: Total Private* | 0.4% | -0.2% | 0.0% | 0.8% | 1.7% | 2.1% |

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