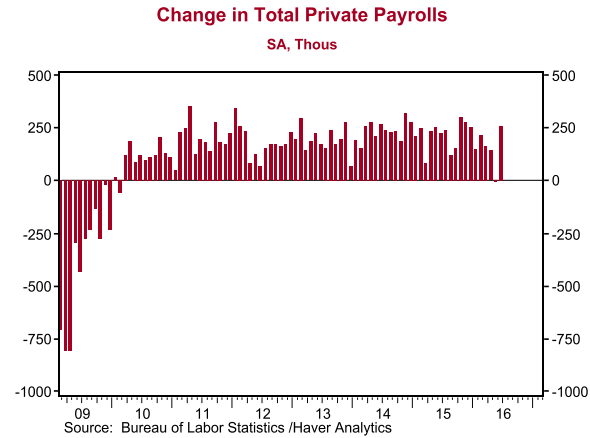


June Employment Report

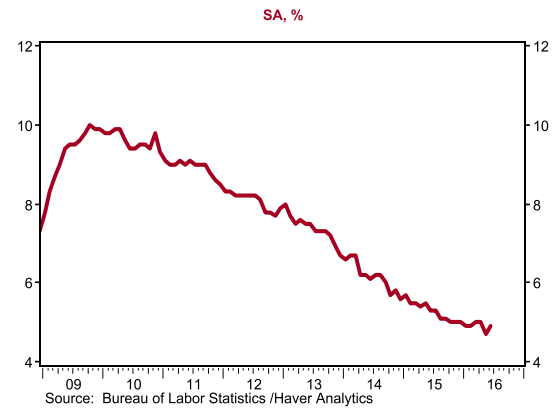
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- Nonfarm payrolls increased 287,000 in June, crushing the consensus expected 180,000. Including revisions to April/May, payrolls rose 281,000.
- Private sector payrolls increased 265,000 in June, although revisions to prior months subtracted 14,000. The largest gains in June were for leisure & hospitality (+59,000), health care & social assistance (+58,000), information (+44,000), professional & business services (+38,000, including temps), and retail (+30,000). Manufacturing payrolls rose 14,000 while government rose 22,000.
- The unemployment rate rose to 4.9% in June from 4.7% in May.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.1% in June and are up 2.6% versus a year ago.



Implications: The Fed should feel foolish. After last month’s report that payrolls rose only 38,000 in May the Fed panicked, deciding to postpone rate hikes. But in June payrolls rose 287,000, well above trend, higher than any economist was forecasting, and the fastest growth in eight months. Both of these numbers should be taken with a grain of salt. The economy was not as weak as suggested by anemic May payroll growth and is not as strong as today’s number. Instead, it’s still a Plow Horse. Part of the reason for the recent volatility in payrolls was the Verizon strike, but only some of it. Information sector jobs fell 39,000 in May and rebounded 44,000 in June. That’s why it’s important for everyone (including the Fed!) to look at the trend, which shows average monthly job growth of 204,000 in the past year and 172,000 in the past six months. Although some pessimistic analysts will dwell on the jobless rate, which rose back to 4.9% in June, that follows last month’s unusually large drop to 4.7%. Again, look at the trend. The jobless rate was 5.3% a year ago and the drop in the past twelve months is not due to a shrinking labor force; the labor force is up 1.9 million in the past year. In addition, the U-6 unemployment rate, which includes discouraged workers and part-timers who want full-time jobs, dropped to 9.6%, the lowest since April 2008. The details of today’s report give the Fed reasons to put rate hikes back on the table. Average hourly earnings (which exclude fringe benefits and irregular bonuses/commissions) grew 0.1% in June and are up 2.6% from a year ago, while total hours worked are up 1.6%. Combined, total cash earnings are up 4.3% from last year, giving workers plenty of purchasing power. That’s impressive considering that many highly-skilled and highly-paid Baby Boomers are retiring. Another positive detail was that the median duration of unemployment dropped to 10.3 weeks, the lowest so far in the recovery. In other recent news on the labor market, new claims for jobless benefits fell 16,000 last week to 254,000. Continuing claims for unemployment benefits declined 44,000 to 2.12 million. These data suggest jobs continue to grow in July, somewhere in the 170,000 – 200,000 range. We doubt the Fed will move in July, but the market is putting the odds of a rate hike by September at only 12%. That’s way too low. Don’t be surprised if the Fed still ends up raising rates twice later this year.

Civilian Unemployment Rate: 16 yr +



Employment Report <i>All Data Seasonally Adjusted</i>	Jun-16	May-16	Apr-16	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.9	4.7	5.0	4.9	4.9	5.0
Civilian Employment (monthly change in thousands)	67	26	-316	-74	195	198
Nonfarm Payrolls (monthly change in thousands)	287	11	144	147	172	204
Construction	0	-16	-6	-7	8	18
Manufacturing	14	-16	5	1	-4	-2
Retail Trade	30	3	-2	10	32	26
Finance, Insurance and Real Estate	16	14	21	17	15	14
Professional and Business Services	38	18	57	38	30	41
Education and Health Services	59	52	47	53	51	56
Leisure and Hospitality	59	-3	15	24	27	34
Government	22	17	-3	12	13	11
Avg. Hourly Earnings: Total Private*	0.1%	0.2%	0.3%	2.5%	2.8%	2.6%
Avg. Weekly Hours: Total Private	34.4	34.4	34.4	34.4	34.4	34.5
Index of Aggregate Weekly Hours: Total Private*	0.2%	0.0%	0.2%	1.5%	1.0%	1.6%

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