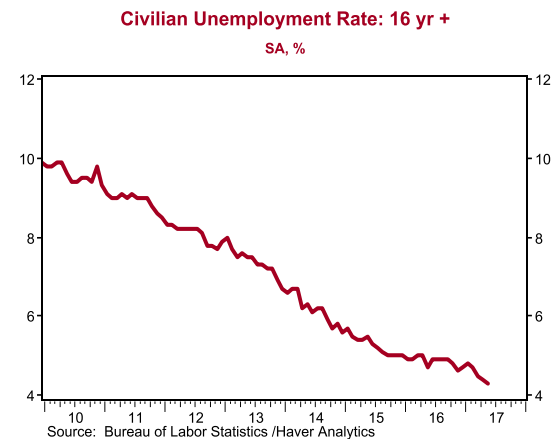
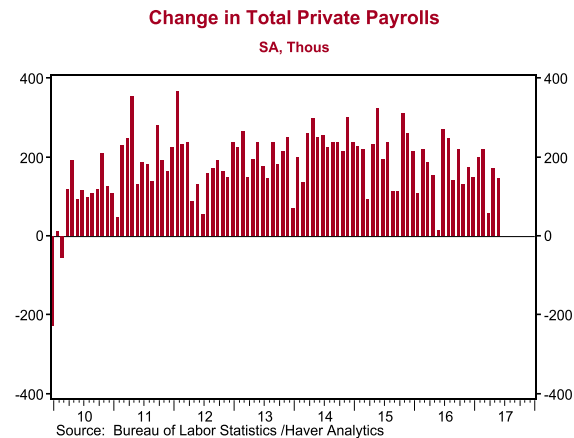


# May Employment Report

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- Nonfarm payrolls increased 138,000 in May, underperforming the consensus expected 182,000. Including revisions to March/April, nonfarm payrolls were up 72,000.
- Private sector payrolls increased 147,000 in May, although revisions to prior months subtracted 39,000. The largest gains were for education & health care (+47,000), professional & business services (+38,000, including temps), and restaurants & bars (+30,000). Manufacturing declined 1,000 while government declined 9,000.
- The unemployment rate ticked down to 4.3% in May from 4.4% 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:** The May jobs report was weaker than expected but will not prevent the Federal Reserve from raising short-term interest rates on June 14. Nonfarm payrolls rose 138,000 in May, short of the consensus expected 182,000, and substantially below yesterday’s ADP report that signaled a gain of 253,000 in the private-sector. However, the shortfall may have been due to calendar quirks. The payroll survey asks companies about jobs in the week that includes the 12th of the month, which means the survey week was May 7 – May 13. As a result, it may have been a little too early to capture some college students getting summer jobs. Because government data crunchers don’t fully adjust for this, we expect a sharp rebound in payrolls in June. Civilian employment, an alternative survey of jobs that includes small business start-ups, fell 233,000 in May, but that follows a gain of 1.5 million in the prior four months. In the past year, payrolls are up 189,000 per month while civilian employment is up 192,000 per month. In spite of the drop in civilian employment in May, the unemployment rate ticked down to 4.3%, tying its lowest level since 2001. This is a key reason why the Fed will still raise rates in June. The Fed consensus thinks the long-term average unemployment rate is 4.7% and key policymakers believe a lower unemployment generates higher future inflation. The jobless rate in May fell due to a 429,000 drop in the labor force (people who are either working or looking for work). However, in the past year the jobless rate has dropped from 4.7% to 4.3% even as the labor force has grown more than 1.7 million. In other words, the trend decline in the jobless rate is not due to workers leaving the labor force. At 62.7% in May, the participation rate remains low by the standards of the last 40 years, but has been hovering in that range for the past three years with no further breakout to the downside. We like to measure the effect of job reports on consumer purchasing power and today’s report doesn’t change our view that there’s plenty of it. The number of hours worked rose 0.1% in May while average hourly earnings rose 0.2%. Multiplying the number of hours worked by wages per hour, total earnings are now up 4.2% from a year ago. In an environment where consumer inflation is running at about 2%, that gain in total earnings plus low debt service ratios for households leaves plenty of room for more purchasing power. The bottom line is that the Fed is still on track for higher rates and we expect a sharp rebound in job growth in June.



Employment Report <i>All Data Seasonally Adjusted</i>	May-17	Apr-17	Mar-17	3-month moving avg	6-month moving avg	12-month moving avg
<b>Unemployment Rate</b>	4.3	4.4	4.5	4.4	4.6	4.7
<b>Civilian Employment (monthly change in thousands)</b>	-233	156	472	132	226	192
<b>Nonfarm Payrolls (monthly change in thousands)</b>	138	174	50	121	161	189
Construction	11	-1	0	3	18	16
Manufacturing	-1	11	11	7	12	5
Retail Trade	-6	-6	-40	-17	-5	3
Finance, Insurance and Real Estate	11	14	4	10	14	14
Professional and Business Services	38	38	58	45	44	52
Education and Health Services	47	50	16	38	41	44
Leisure and Hospitality	31	58	11	33	26	28
Government	-9	1	-9	-6	2	10
<b>Avg. Hourly Earnings: Total Private*</b>	0.2%	0.2%	0.1%	1.9%	2.4%	2.5%
<b>Avg. Weekly Hours: Total Private</b>	34.4	34.4	34.3	34.4	34.4	34.4
<b>Index of Aggregate Weekly Hours: Total Private*</b>	0.1%	0.5%	0.0%	2.3%	2.1%	1.7%

Source: Bureau of Labor Statistics \*3, 6 and 12 month figures are % change annualized