

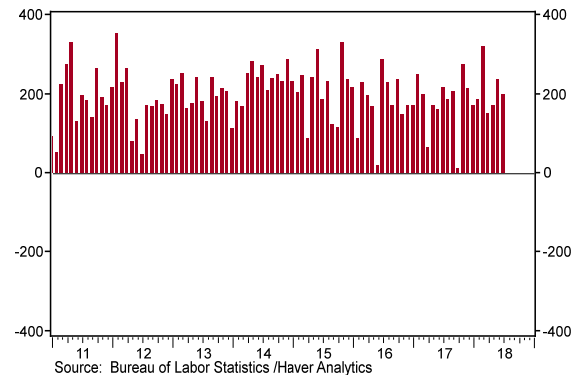
June Employment Report

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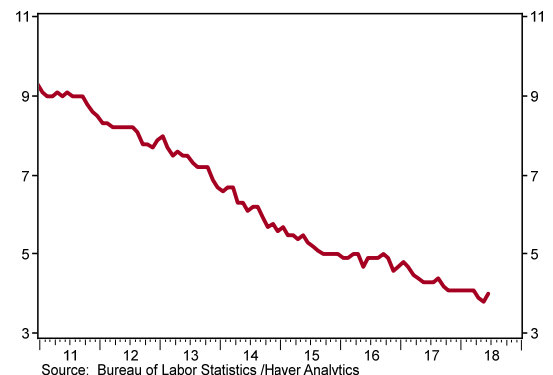
- Nonfarm payrolls rose 213,000 in June versus a consensus expected 195,000. Including revisions to April/May, nonfarm payrolls increased 250,000.
- Private sector payrolls rose 202,000 in June and revisions to prior months added an extra 33,000. The largest increases in June were for education & health care (+54,000), professional & business services (+50,000, including temps), and manufacturing (+36,000). Government rose 11,000.
- The unemployment rate rose to 4.0% in June from 3.8% in May.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.2% in June and are up 2.7% versus a year ago.

Implications: Another strong report on the US labor market. Nonfarm payrolls rose 213,000 in June, beating the consensus expected 195,000. Although some may complain about the rise in the unemployment rate back up to 4.0%, the increase wasn't due to a lack of jobs; civilian employment, an alternative measure of jobs that includes small business start-ups, rose 102,000 in June, while the labor force increased 601,000 (people who are either working or looking for work). As a result of more people looking for work, the participation rate moved up to 62.9% in June, near the higher end of its past 4+ year range (62.3% and 63.1%). This jump in the labor force is a positive sign, not negative, and is highly unlikely to cause the Federal Reserve to shy away from rate hikes. The Fed still sees 4.5% as the long-term average, while aging baby boomers retire. Payrolls are up 198,000 per month in the past year, and the economy is still showing the momentum that should take the jobless rate lower in the next couple of years. Although average hourly earnings grew only 0.2% in June versus a consensus expected 0.3%, workers' paychecks are expanding. In the past year, average hourly earnings are up 2.7%. Mix that with a 2.1% increase in the number of hours worked and total earnings are up 4.9% in the past year, more than enough to keep pushing consumers' purchasing power higher. Moreover, this gain doesn't include extra earnings from irregular bonuses and commissions, like those paid out after the tax cut was passed. Put it all together and we think the Fed will raise rates twice more this year (a total of 50 basis points) and four more times in 2019 (another 100 basis points). Meanwhile, the futures market in federal funds puts the odds of such rate hikes (or more) at only 2.9%. As a result, look for higher interest rates across the yield curve in the next eighteen months.

Change in Total Private Payrolls
SA, Thous



Civilian Unemployment Rate: 16 yr +
SA, %



Employment Report <i>All Data Seasonally Adjusted</i>	Jun-18	May-18	Apr-18	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	4.0	3.8	3.9	3.9	4.0	4.1
Civilian Employment (monthly change in thousands)	102	293	3	133	206	169
Nonfarm Payrolls (monthly change in thousands)	213	244	175	211	215	198
Construction	13	29	16	19	25	24
Manufacturing	36	19	28	28	26	24
Retail Trade	-22	25	-2	0	12	7
Finance, Insurance and Real Estate	8	17	3	9	11	11
Professional and Business Services	50	43	59	51	49	43
Education and Health Services	54	40	38	44	41	37
Leisure and Hospitality	25	28	14	22	18	22
Government	11	5	1	6	2	1
Avg. Hourly Earnings: Total Private*	0.2%	0.3%	0.2%	2.7%	2.6%	2.7%
Avg. Weekly Hours: Total Private	34.5	34.5	34.5	34.5	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	0.2%	0.2%	0.1%	1.8%	2.0%	2.1%

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