

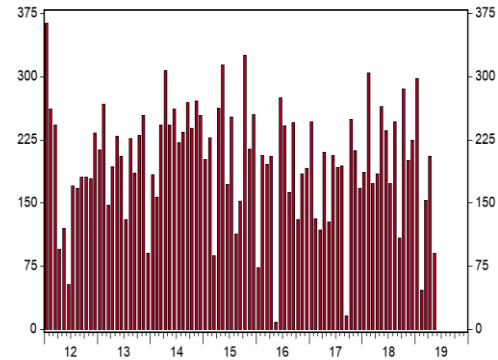
May Employment Report

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- Nonfarm payrolls rose 75,000 in May, well short of the consensus expected 175,000. Including revisions to March/April, nonfarm payrolls were unchanged.
- Private sector payrolls rose 90,000 in May, while revisions to the two prior months subtracted 57,000. The largest increases in May were for professional & business services (+33,000 including temps), education and health services (+27,000), and health care & social assistance (+24,000). The largest decline was for retail (-8,000). Manufacturing rose 3,000 while government declined 15,000.
- The unemployment rate remained at 3.6%.
- Average hourly earnings – cash earnings, excluding irregular bonuses/commissions and fringe benefits – rose 0.2% in May and are up 3.1% versus a year ago.

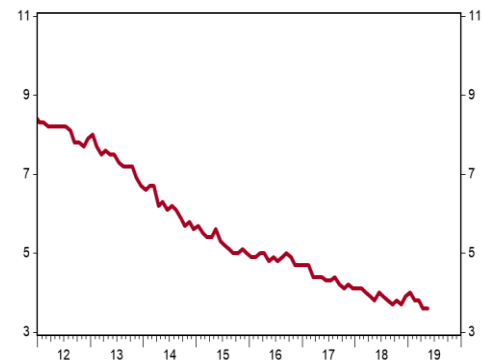
Implications: The Fed has no business cutting rates based on today’s report on the labor market. Yes, nonfarm payrolls grew only 75,000 in May, well below consensus expectations. But that’s not far below the roughly 100,000 per month pace needed to keep the unemployment rate steady and is well within the range of normal monthly variation. In the past year payrolls have risen an average of 196,000 per month despite months like February, when they only grew 56,000, or September, when they only grew 108,000. Civilian employment, and alternative measure of jobs that includes small-business start-ups increased 113,000 in May. A transition to a less rapid pace of job growth, consistent with low and steadier unemployment, need not mean a return to slower overall economic growth. Productivity growth, the growth in output *per hour*, has accelerated, growing 2.4% in the past year. Faster productivity growth is how businesses should sustain an expansion in a tight labor market. It’s important to recognize that the details of the employment report were generally stronger than the tepid headline growth in payrolls. The unemployment remained at 3.6%, which is below where the Federal Reserve thought it would be at the end of 2019 (when they made their last public forecast in March). The U-6 measure of unemployment, which includes discouraged workers and those working part-time who say they want full-time jobs, fell to 7.1%, the lowest since 2000. Meanwhile, the median duration of unemployment fell to 9.1 weeks and the share of voluntary job leavers (“quitters”) among the unemployed rose to 13.5%. Both of these are signs of a tight labor market. Average hourly earnings rose a moderate 0.2% in May, versus a consensus expected 0.3%. However, it’s important note that average hourly earnings are up 3.1% from a year ago, an acceleration from the 2.9% gain the twelve months ending in May 2018. In addition, the total number of hours worked rose 0.1% in May and are up 1.5% in the past year. As a result, total wages are up 4.6% in the past year, signaling growing purchasing power among workers. We don’t think the Fed should or will obsess about the miss on the headline payroll number for May and will not cut rates at the June meeting. In turn, our base case is that a combination of continued economic growth and improvement in trade negotiations with China and others will let the Fed off the hook, without cutting rates later this year.

Change in Total Private Payrolls
SA, Thous



Source: Bureau of Labor Statistics/Haver Analytics

Civilian Unemployment Rate: 16 yr +
SA, %



Source: Bureau of Labor Statistics/Haver Analytics

Employment Report <i>All Data Seasonally Adjusted</i>	May-19	Apr-19	Mar-19	3-month moving avg	6-month moving avg	12-month moving avg
Unemployment Rate	3.6	3.6	3.8	3.7	3.8	3.8
Civilian Employment (monthly change in thousands)	113	-103	-201	-64	73	139
Nonfarm Payrolls (monthly change in thousands)	75	224	153	151	175	196
Construction	4	30	15	16	16	18
Manufacturing	3	5	-3	2	8	15
Retail Trade	-8	-14	-15	-12	-8	-6
Finance, Insurance and Real Estate	2	13	11	9	6	8
Professional and Business Services	33	62	19	38	35	42
Education and Health Services	27	73	72	57	54	49
Leisure and Hospitality	26	17	32	25	39	35
Government	-15	19	0	1	5	7
Avg. Hourly Earnings: Total Private*	0.2%	0.2%	0.2%	2.5%	2.9%	3.1%
Avg. Weekly Hours: Total Private	34.4	34.4	34.5	34.4	34.5	34.5
Index of Aggregate Weekly Hours: Total Private*	0.1%	-0.2%	0.5%	1.5%	1.6%	1.5%

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

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