ECONOMIC UPDATE

REGIONS

June 7, 2024

May Employment Report: Paybacks Are . . . Sometimes Not So Bad

- Nonfarm employment rose by 272,000 jobs in May; prior estimates for March and April were revised down by a net 15,000 jobs
- Average hourly earnings rose by 0.4 percent, while aggregate private sector earnings rose by 0.6 percent (up 5.5 percent year-on-year)
- The unemployment rate rose to 4.0 percent in May (3.964 percent, unrounded); the broader U6 measure was unchanged at 7.4 percent

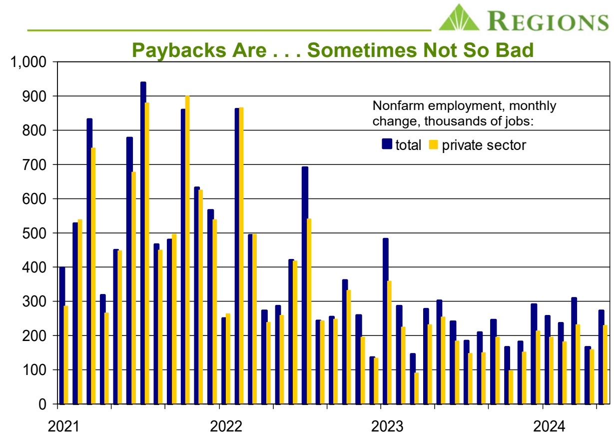
Total nonfarm employment rose by 272,000 jobs in May, a larger gain than our forecast of 258,000 jobs and well above the consensus forecast of an increase of 180,000 jobs, with private sector payrolls up by 229,000 jobs and public sector payrolls up by 43,000 jobs. Prior estimates of job growth in March and April were revised down by a net 15,000 jobs for the two-month period. Average hourly earnings were up by 0.4 percent in May, matching our above-consensus forecast, leaving them up 4.1 percent year-on-year. Contrary to our expectations of a modest increase, the average length of the private sector workweek was unchanged at 34.3 hours which, combined with the gains in payrolls and average hourly earnings, left aggregate sector wage and salary earnings up 0.6 percent, yielding a year-on-year increase of 5.5 percent. Both the size of the labor force and the level of household employment are reported to have fallen sharply in May, neither of which we think to be credible but, either way, the net result is the unemployment rate edged up to 4.0 percent. The broader U6 measure, which includes underemployment, held steady at 7.4 percent in May.

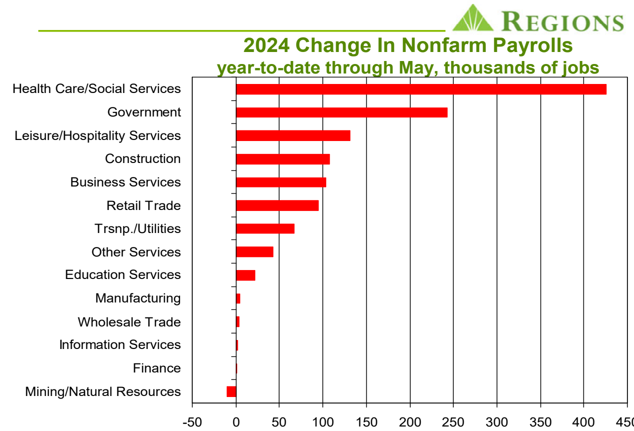
Our forecast of May job growth was not only far above the consensus forecast but was easily the highest in either of the surveys we take part in. As we explained in this week's *Economic Preview*, however, our forecast largely reflected what we expected would be payback for what we thought was a high degree of noise in the April data which biased the estimates of job growth and hourly earnings lower. To us, that meant either the May data would show outsized increases or that the April data would be revised higher. No more, no less than that. That the markets are, at least thus far, reacting so badly to the May data is what happens when one goes no further than the headline numbers atop each and every data release and couches those headline numbers in the context of whether it works for or against a Fed funds rate cut. Not a lot of value in that.

For the first time in quite some time, seasonal adjustment was largely a wash for the May data, with the monthly increase in total employment on a not seasonally adjusted basis right in line with what would have been normal for May prior to the pandemic. The initial collection rate for the May establishment survey was 64.4 percent, higher than April but still well lower than what would have been considered normal prior to the pandemic. Recall that April saw one of the lowest initial collection rates since the onset of the pandemic, and the second-month collection rate (firms have three chances to report data for any given month) is also notably low. While we've frequently pointed to low initial collection rates as lessening the reliability of the initial estimates of employment, hours, and earnings in any given month, another troubling pattern is that follow-up collection rates have also remained low. This simply leaves the door open for outsized revisions in the annual benchmark revision process, but in the interim we have less confidence in the data we're left to work with, which is less than ideal for policy makers.

We are heavily discounting the reported declines in the labor force and the household employment for reasons we pointed to in our *Economic Preview*, as they are accounted for by declines amongst the 16-to-24 year-old age cohort, particularly those in the 20-to-24 range. The influx of younger job seekers was smaller this May than is typically the case, which was treated harshly by seasonal adjustment. It is, to be as polite as we can, striking that those who point to the household survey to confirm the weakness they see in the broader economy never seem to take note of what are considerable issues with the reliability of that survey. To us, what is always the most relevant element of the household survey are the prints on participation and employment amongst the 25-to-54 year-old age cohort, the "prime working age" population. Not only did both rise further in May but, at 83.6 percent, you have to go back to February 2002 to find a higher participation rate amongst this cohort. We've yet to see anyone using the household survey data to affirm their bias of economic and labor market conditions point this out, nor do we expect to.

Job growth was broadly based across private sector industry groups, with health care still leading the way but not as dominant as has been the case over the past several months. While we had expected average weekly hours to have ticked up, there were few changes across the broad industry groups. Just as the April employment report did not change our take on the labor market, neither does the May report – we see the labor market as cooling, but nowhere near on the verge of collapse.





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