ECONOMIC UPDATE

REGIONS

July 7, 2017

June Employment Report: Trend Rate Of Job Growth Remains Solid

- Nonfarm employment rose by 222,000 jobs in June; prior estimates for April/May were revised up by a net 47,000 jobs.
- Average hourly earnings rose by 0.2 percent; aggregate private sector earnings rose by 0.6 percent and were up 4.53 percent year-on-year.
- The unemployment rate rose to 4.4 percent in June (4.357 percent, unrounded); the broader U6 measure rose to 8.6 percent.

If the people dancing through the streets belting out "Happy Days Are Here Again" in the wake of the release of the June employment report look familiar to you, that's because they are likely the same people who were trudging through the streets carrying "the end is nigh" signs after the release of the May employment report. Wow, talk about recency bias. In any event, total nonfarm employment rose by 222,000 jobs in June, with private sector payrolls up by 187,000 jobs and public sector payrolls up by 35,000 jobs (discount this – heavily). Job growth was slightly above our forecast of 212,000 and even further above the consensus forecast of 178,000. Prior estimates of job growth for April and May were revised up by a net 47,000 jobs for the two-month period. And, for the record, we prefer to belt out "Happy Days Are Here Again" while lugging around our "the end is nigh" sign, it's just more efficient that way.

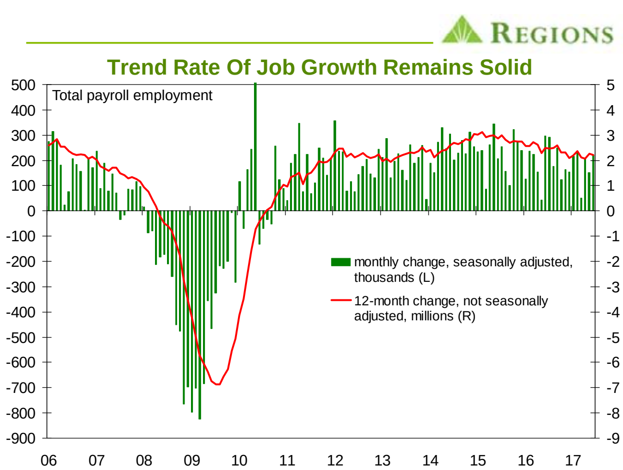
As we noted in our review of the May employment report and in our latest weekly *Economic Preview*, the May report was riddled with noise related to calendar effects, including an early survey week and the varying timing of the school year from one year to the next that makes it very challenging to properly seasonally adjust certain segments of the data. That noise was evident, at least for anyone willing to sift through the details, in reported job growth, average hourly earnings, and the unemployment rate. We also noted there would be payback in the June data and that, if this was the case, the only way to make sense out of the May and June reports is to look at them as a whole. On this basis, the main conclusion is that nothing much has changed in the labor market, despite the noisy data and the even noisier reactions to the data. For the most part, that is good news, though sluggish wage growth indicates there is more progress to be made.

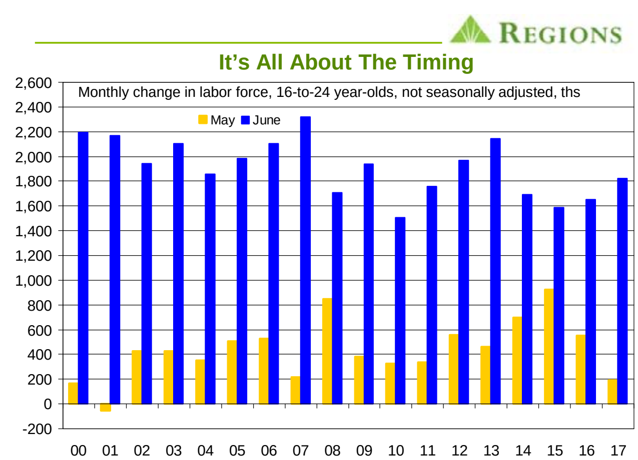
Over the past 12 months, the U.S. economy has added 2.206 million jobs, per the not seasonally adjusted data, for a monthly average of 184,000 net new jobs. Not only is this a healthy rate of job growth, particularly this late into an economic expansion, but that it is coming without a pronounced acceleration in wage growth indicates that we are still some distance away from full employment. One hallmark of the current expansion is that job growth has been notably broad based across private sector industry groups, and this pattern remained in place in June, with the one-month hiring diffusion index rising to 59.6 percent. Job growth in June was led by education & health services, leisure & hospitality services, professional & business services. We think, however, the reported addition of 35,000 jobs in local government is more noise than anything else, but the breadth of hiring across the private sector remains one of the most notable traits of the current cycle.

The unemployment rate ticked up to 4.4 percent, matching our forecast, on increased participation, but this was highly concentrated amongst those in the 16-to-24 year-old age cohort. Again, this simply reflects the timing of the school year – May saw the smallest number of those in this age cohort entering the labor force than in any May since 2001. Our forecast of a higher jobless rate in June was predicated on payback in this segment of the labor force, which proved to be the case.

Average hourly earnings rose 0.2 percent in June and are up 2.5 percent year-on-year. The broader measure of aggregate private sector wage and salary earnings, which incorporates the number of people working, average hourly earnings, and average weekly hours, was up 0.6 percent in June and up 4.53 percent year-on-year. One factor boosting aggregate earnings growth in June was a longer workweek, with average weekly hours rising to 34.5 hours. Still, this is shorter than the workweek would be were firms truly pressed for labor, and we have referred to the short workweek as an underappreciated form of labor market slack. Aggregate private sector hours worked rose at an annualized rate of 2.74 percent in Q2 which, given Q2 real GDP growth is expected to come in right around 3.0 percent, implies yet another middling increase in labor productivity.

To us, the labor market doesn't look much different today than it did a month ago. While the trend rate of job growth remains solid and job growth is broad based, there is a considerable degree of slack yet to be absorbed, which will remain drag on wage growth in the months ahead.





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